The MAGAZINE of WALL STREET

and BUSINESS ANALYST

FEBRUARY 26, 1949 75 CENTS

1949 SPECIAL *Part 2*

Re-Appraisal of Security Values Earnings and Dividend Forecasts

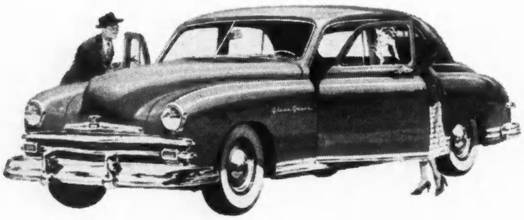
PROSPECTS FOR ALL LEADING COMPANIES

—From BUSINESS and INVESTMENT Standpoints

★ *In This Issue* ★

ELECTRICAL EQUIPMENTS
RAIL EQUIPMENTS
FARM EQUIPMENTS

What to look for when buying a <u>really</u> new Car...



1 OPEN THE DOORS • Four doors swing wide with an invitation that is fresh and different. More choices of colors and fabrics than you've ever had before. Beautifully tailored and appointed—with spaciousness and graciousness for *six!*

2 OPEN THE HOOD • Horsepower? No—it's *Kaiser-power!* . . . an eager 112 of it in the Kaiser DeLuxe —with the highest-compression engine of any car in its class! More power from every drop of gasoline. Less gasoline for every *Kaiser-powered* mile!

3 OPEN NEW ROADS • Smooth or rough. The Kaiser's *innerspring* front shock suspension, new distribution of mass and load and new triple-control steering bring a "new feel" to both driving and riding. You'll be both proud and comfortable in the luxury-styled, comfort-engineered Kaiser! It's *really* new!

KAISER

RIDE - *THEN DECIDE!*

SEE YOUR KAISER-FRAZER DEALER TODAY

Hear! Hear! Hear! *Walter Winchell* Every Sunday...same time...same station!

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 83, No. 11 February 26, 1949

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

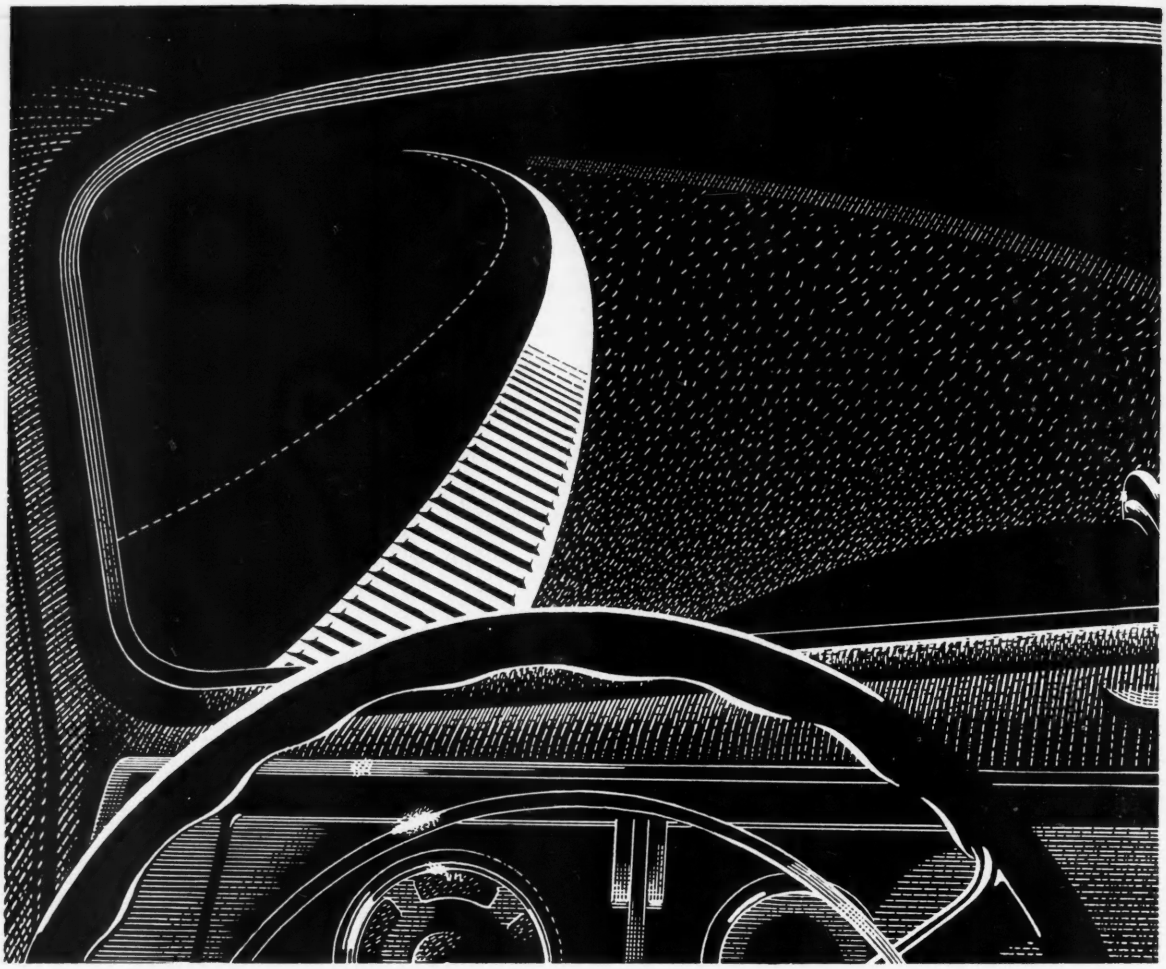
CONTENTS

SUBSCRIPTION PRICE—$15.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

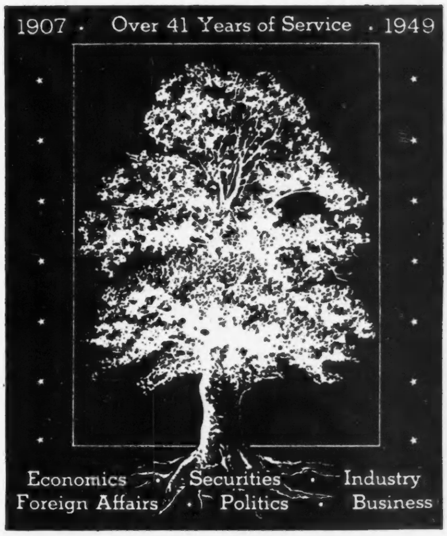
EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London, B. C. 4 England.

Cable Address—Tickerpub



THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

IT'S HIGH TIME! . . . Recent rumors of an impending reduction in margin requirements for trading in stocks were doubtless premature but qualified observers agree that margins may well be lowered, should any serious weakness develop in stock prices or should deflation become more pronounced. The principles which govern margin policy could dictate such action if a business recession should bring about a general contraction of credit. But for other and equally important reasons, lower margins have been in order long ago.

The avowed chief objective of margin regulations is to limit "undue" credit expansion but the volume of securities carried with the aid of bank credit for some years has been abnormally low. A second objective is stabilization of stock prices in recognition of the fact that a steady and healthy stock market is essential for the task of channelling venture capital into busines and industry. As it is, excessive margin requirements have not been helpful in this respect; rather they have prevented the development of broad and active markets necessary to attract equity capital. At a time when capital is scarce both for the creation of new businesses and the expansion of existing ones, the present margin policy has greatly contributed to the narrowing of market interest.

Margin requirements were reduced from 55% to 40% shortly after the stock market break in 1937 with share price stabilization the obvious objective. More recently, the reduction from 100% to 75% early in 1947 followed the sharp market decline in the autumn of 1946 and, incidentally, at a time when general credit expansion was under way. In all these cases, stabilization rather than credit control was the leading motive. Obviously the clamping down of the market to a cash basis was too stiff a dose even in an inflationary environment, and too great a deterrent to capital flotations. The same can be said of the present 75% rate, and with considerable conviction. It's time for a change, and the sooner the better.

Elsewhere, too, the need for at least moderate relief from discriminatory treatment of the investor is apparently being realized, inspired not so much by regard for the man who risks his savings in the form of venture capital but by the desire to encourage increased investment, particularly among the smaller income groups, to promote the formation of new equity capital. Thus a move is shaping up again to do something about double taxation. This, too, is long overdue and we hope that this time the effort will bear fruit, and that whatever formula is decided upon will be broad and effective enough to fulfill its purpose.

There is talk of the idea to provide a "poor man's tax relief" by allowing a straight 20% tax credit for dividends on investments with a maximum limit of $400 per individual, with the additional proviso that if the corporate tax is raised above 40%, the dividend tax credit would also rise. Probably such a formula, modest as it looks, might have considerable appeal for the middle and lower bracket in-

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis, of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

come groups, especially for people dependent on small fixed incomes. But for best effect, a more sweeping approach would certainly be indicated.

Tax reform should not stop at doing something about double taxation. Equally needed is a common sense revision of the capital gains tax provisions. When the capital gains tax was cut to 25%, it was intended to benefit the long term investor as distinguished from the short term trader. A buyer of stocks must hold them for six months or more to benefit from the 25% rate. But under present uncertain economic conditions, it can be strongly argued that the holding period should be greatly shortened since investors are understandably reluctant to be tied down for a six months' period at a time when it is difficult enough to appraise conditions for a much shorter period. Nothing could activate and broaden the market more than full recognition of this fact.

A good case can of course be made for elimination of the capital gains tax entirely but in view of the pressure for more rather than less taxes, the outlook for this is not very bright. The least that should be done is a shortening of the holding period which, as it now stands, is having a strangling effect on the market. There is no good reason to dodge this issue, so vital in the interest of free economy. The Administration is counseling industry to expand productive facilities. If industry is to do that, more equity capital must be found, and it cannot be found so long as impractical and discriminatory tax policies discourage equity investment.

ERP—SECOND ROUND...As the European Recovery Program is moving towards the end of its first year and preparations are under way for the "second round" soon to begin, we note a distinct change in approach that augurs well for speedy action in Congress. Last year many were asking whether we should enter this plan at all. This year questions center more on the progress made, and on the prospects for the years ahead. There is less sentiment and more cool reasoning in discussions of the subject, but from the standpoint of practical results so far, the situation is decidely hopeful.

There has been considerable progress, as ERP Administrator Hoffman has pointed out in summarizing results achieved during not much more than eight months in 1948. Output in factories and mines in Marshall Plan countries is now about equal to prewar level, in some cases considerably higher, such as in steel and electric power production as well as freight traffic. Gross capital investments are running at a rate six or seven times as great as the ECA dollar contributions and overall exports, outside of Germany, are about one-half higher than they were in 1947.

Against these reassuring figures must be set the gloomy predictions recently made that the ERP countries will still be running an economic deficit when the Marshall Plan ends in 1952. These predictions assume that there will be no quick real improvement in the economic relationships among the Marshall Plan countries themselves. They also seem to assume that it will take longer than expected to abolish trade barriers, stabilize currencies and produce something like an economic union of Europe. Yet there is hope that the impulse towards recovery and toward union will gather strength and move more rapidly during the next three years if only because economic recovery is bound to lead towards closer political union.

Apart from recommending and fostering such a trend, there isn't much that we can do directly to speed this process, for after all we want to deal with Europe not as a dependent but as an equal, just as we want to avoid the creation of a permanent and debilitating charity. We must leave it to the countries concerned to see the compelling logic of the fact that if these countries individually are not secure, Europe will not be secure, and that union will be a far better safeguard of security than narrow insistence of individual rights, interests and advantages.

GOLD IN THE NEWS . . . The official announcement that South Africa proposes to sell to British industry gold at prices above the established figure of $35 an ounce brought considerable repercussions and conjecture and once again the International Monetary Fund is worried about the implied undermining of its gold price policy. Conjecture centers on the question whether this move is to be regarded as an opening wedge to lift prices of the yellow metal more nearly to "inofficial" quotations.

The conjecture appears not at all far-fetched when one hears that Mexico may be the next nation to break away from the international gentlemen's agreement to maintain the price of gold at $35 an ounce and keep it out of the hands of hoarders.

South Africa proposes to sell only a small amount, 100,000 ounces, but there is no certainty that this "experiment" will not be repeated once a precedent has been established, and this is what has the International Fund worried no end. Obviously the gold sale is not officially considered a currency devaluation move but purports merely to give gold producers a somewhat higher price for some of their output. Still some quarters are inclined to consider this a subterfuge, a neat way to get around the International Monetary Fund agreement.

Mexican financial circles have long been considering a similar scheme, according to rumor, and latest gossip to this effect coincided with a marked weakening of the Mexican peso. Apparently the rumor has been taken seriously there and if so, it was natural for the peso valuation to decline.

Should Mexico actually follow suit, this would strongly suggest that the world agreement to hold the line on gold may be starting to fall apart. It is not too surprising that a large gold producer like South Africa is getting tired of sitting tight when it is so easy to get a higher price, and when she is so badly in need of capital goods that must be imported from the United States, against dollars.

For Mexico, too, selling gold would be a helpful way out of her economic difficulties and once such a decision were made, it would be natural for her to try to get as high a price as she can. But both South Africa and Mexico, should the latter seriously consider such a step, will have to tangle with the International Fund authorities who oppose premium prices on gold sales on the ground that gold would disappear into private (*Please turn to page* 598)

As I See It!

BY ROBERT GUISE

DEMOCRACY vs. DEMOCRACY

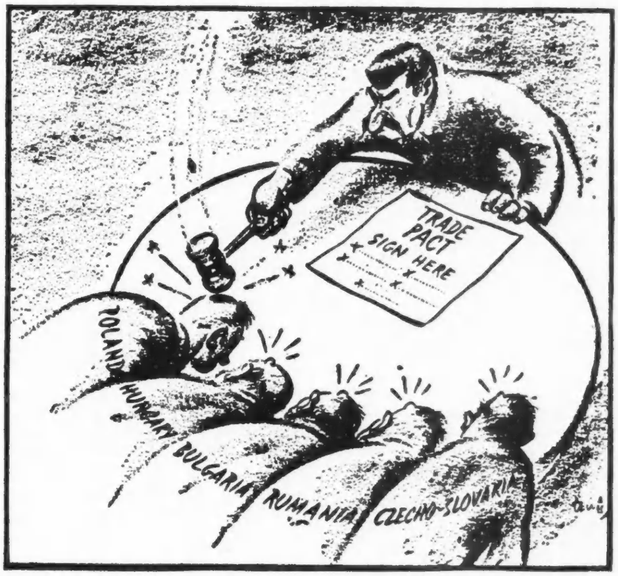
For reasons difficult to fathom, the United States seems to have failed to counter adequately Russia's propaganda claims of democracy for her system of Government. Evidently there are millions of uninformed people all over the world who accept Russia's statements and pretensions at face value and believe they are merely pawns in the struggle between the Soviet Union and the United States.

We know that behind the Iron Curtain, all organized opposition to the communist regimes in Eastern Europe has been smashed. It is impossible to discover there any vestige of organized parties or leaders opposed to communism at liberty and still functioning. In short, we in the West know what Russian "democracy" in action means. Yet many behind the Iron Curtain appear to believe in Russia's brazen propaganda fiction of "Soviet democracy."

While we respond in generalities, Russia resorts to lies, half truths and infamy in describing our way of life. Since spies, police and slave labor camps (all such democratic institutions!) keep Stalin's workers in complete subjection to his will, he does not need to consider their welfare. But at the same time the Kremlin is seeking to make the masses believe that in the readjustment process which this country is presently undergoing, the standard of living of our people has reached levels below those of the lowliest persons in the Soviet Union. And the Russian masses, having no other source of information, undoubtedly fall victim to this lie.

To meet such propaganda lies effectively, greater effort should be made to present concretely the facts of our standard of living as compared with that in Russia and her satellite countries. It would open many misguided eyes in wonder and amazement. We should bring to the knowledge of these people, and stress again and again a realistic comparison of living standards today under communism and free American enterprise. Only then will these people fully understand the realities of life under communism.

RUSSIAN "DEMOCRACY" IN ACTION



Lewis in the Milwaukee Journal

We should go down to details. We should bring home the fact that to a Russian family, a worker's home in capitalistic America must seem like a palace though Stalin is trying to see to it that they do not know how we live. We should show them that the American worker's privacy, as compared to the jampacked living quarters which are the daily abodes of millions of people behind the Iron Curtain, must seem a priceless luxury. We should tell them that most American workers have such mechanical home equipment as a washing machine, a gas or electric cooking stove and refrigerator, a vacuum cleaner, a telephone, and most have an automobile. None of these things are available to the average Soviet worker.

Food affords another comparison. In Russia food has always been a problem and the Russian people are eating less per person than the people in any country in Europe, let alone America. Thus we find that whereas the American worker can buy a pound loaf of white bread with six minutes' work, the Russian worker has to labor 2 hours and 38 minutes to get it, and 38 minutes if he is satisfied with black bread. For a pound of butter, the American worker workers 44 minutes whereas Ivan has to slave twelve hours and 28 minutes; for a pound of sugar, the comparisons are five minutes vs. two hours and fifty minutes; for a pound of beef 28 minutes vs. five hours and 40 minutes, etc.

Or take clothing. The average Russian wage earner has to work fifteen times as long as the American worker to buy a woolen suit, and almost twenty times as long to buy a pair of shoes. Even then these articles in Russia are inferior and often not to be had. Russian shoe production is only 39% of U.S.A. output and provides less than one pair annually for a person; cotton and woolen textile production for a population 31% larger than ours last year was just a little more than one-third of American production. In fact textile output dropped so low that it caused a (*Please turn to page* 598)

Watch Individual Issues Rather Than Market

There is a chance for a recovery of some proportions from the close vicinity of the recent lows. The current indications, while tentative, are encouraging. In view of many divergences within the market, we continue to put chief emphasis on selectivity. There is no change in advised ratios of reserves to stockholdings.

By A. T. MILLER

Market action over the near term will bear close watching, for there is a chance that the level reached by the general list late in the trading week ended February 11 will stand as the low for some time to come, from which another good trading-range upswing could develop. It is not possible at this writing to say that such an outcome appears probable, or to have a conviction that the chance for it is much better than 50-50. But it is good enough, we think, to suggest that this is a poor time for pessimism — and a time when investors should be on the alert for buying opportunities in well-situated individual stocks, especially if they hold more conservative cash reserves than we have heretofore advocated (about 25% in average accounts).

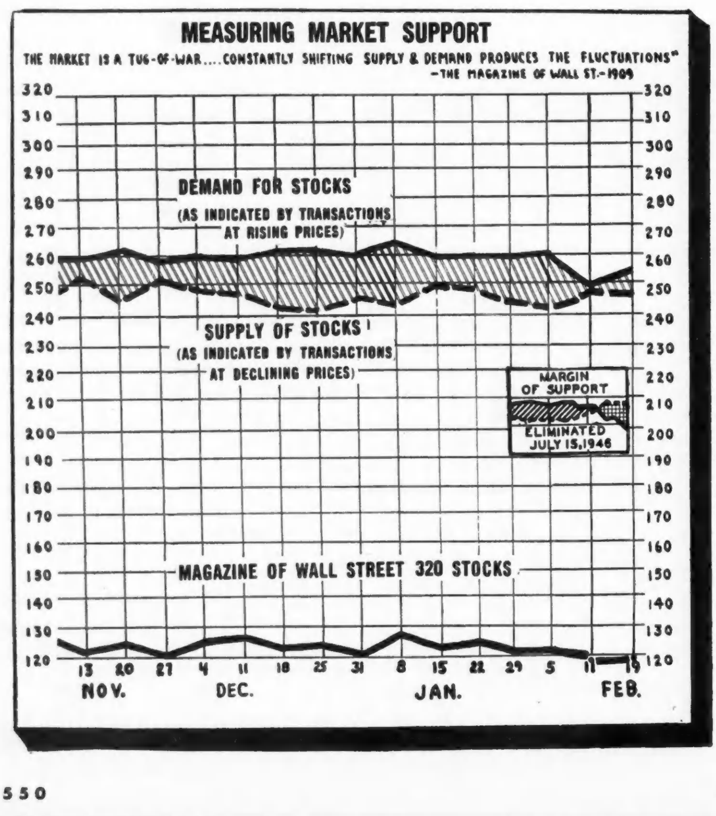
From a technical point of view, it boils down to this: There can be only a moderate downside risk at present unless one assumes that we are in a major bear market which will soon see the January-February sell-off extended into a decisive penetration of the key support levels maintained in the broad trading range of the past two years. It must be conceded that this is a possibility; but for it to come will require the development of a consensus of market opinion — certainly not yet indicated — that corrective adjustments in the economy will begin to spiral this spring into a more general deflation than stock prices have yet discounted. As to the economic aspect, more later in this discussion.

Our Technical Appraisal

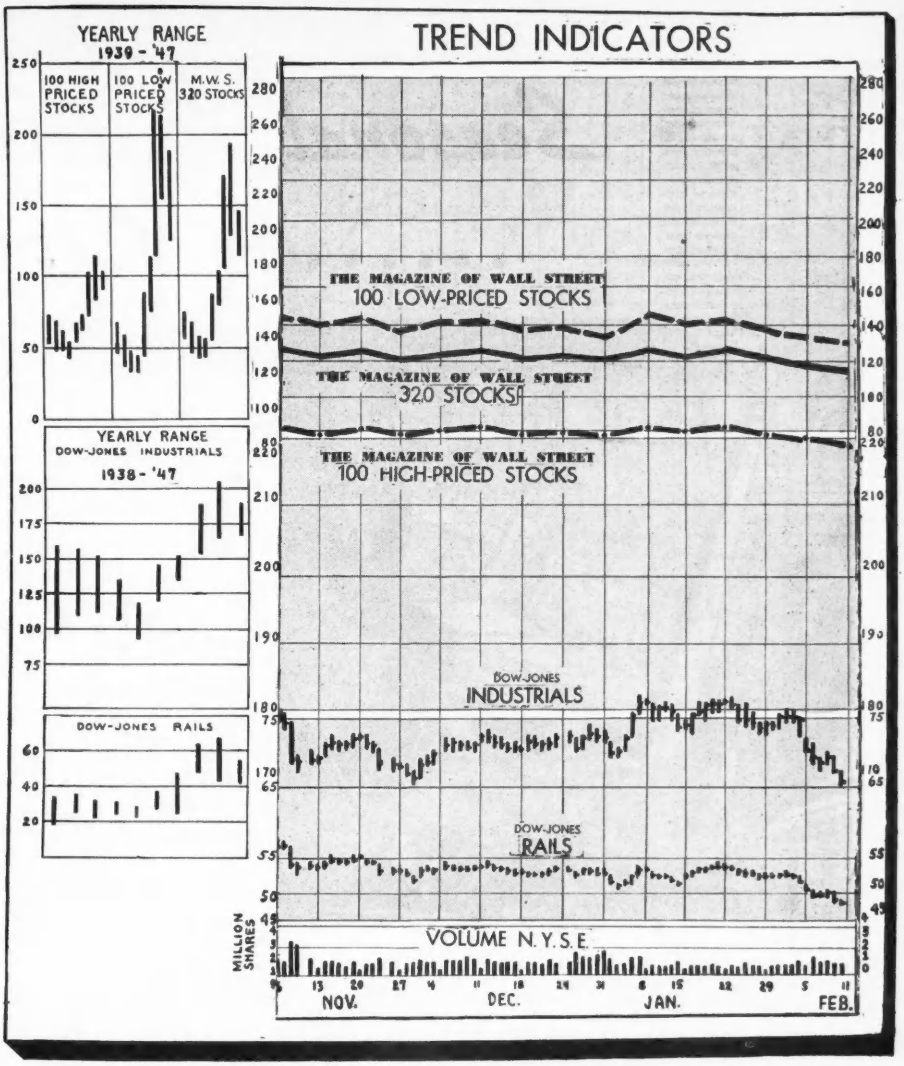
It takes a liquidating movement of broad proportions to put the general market significantly under clearly defined support levels which have been maintained on repeated tests over an extended period; just as it takes very strong investment demand to put average stock prices much above supply areas within which advances have terminated repeatedly. Traders ought to love this market, for rarely have both key support and supply areas become so sharply defined as has been so for the last two years and more. On the contrary, aside from the numerous good dividend yields which are available, investors can be happy in this kind of market — a market of limited general price swings since autumn of 1946 — only if the individual stocks held are capable of performing substantially better than the general list.

It is the old support area which now concerns us, for the market is in it, as is best brought out by our composite weekly index of 320 stocks. Its 1947 low was 11.5; 1948 low 119.0; and the February 11 low, from which there has now been a slight and dull rebound, was 115.8. The comparisons are similar for the indexes of 100 high-price and 100 low-price stocks. Even the much less representative Dow industrial average, closely watched by most traders, was, at its recent low, only about 3.5% away from its 1948 low and less than 5% away from its double-bottoms of 1946 and 1947.

If there is significance in the old support levels and in over two years of wary anticipation of economic read-



justment — and we think there should be — this is the place (the approximate vicinity of the recent lows) where it would be logical to expect the market to make a stand, if it is not going to crumble. The current indications point tentatively to a stand — tentatively because they are not emphatic and the period of observation is a short one, the February 11 low being only 10 days behind as we go to press. These indications so far are generally similar to those which accompanied establishment of a "slow bottom" in February - March a year ago, which was followed by a rise of nearly 28% in our composite index. Selling pressure has waned; demand has improved a little; selectivity is re-emphasized. After meeting, but not crossing, the lines on the accompanying Support Indicator chart have pulled apart a little in the right direction. Continuing for a while, this kind of action will be more impressive than could have been that provided had a fast and relatively sharp rebound developed from the recent low.



It remains, of course, "a market of stocks." This is emphasized by comparing the February 11 lows of individual stocks with those of last November 30, where the post-election sell-off climaxed and the moderate year-end rally (running to January 22) started. That low was broken by all broad averages or indexes and by the great majority of the stock groups for which we keep weekly indexes. On this comparison, however, a number of stocks show to advantage, some markedly so. A partial list includes the following:

American Agricultural Chemical, American Can, American Chicle, American Home Products, American News, American Power & Light, American Seating, Borden, Bristol-Myers, Chrysler, CIT Financial, Columbia Gas System, Commercial Credit, Consolidated Natural Gas, Corn Products, duPont, Endicott Johnson, Firestone Tire, First National Stores, General Motors, International Business Machines, Joy Manufacturing, Kroger, Lehigh Portland Cement, Libby-Owens-Ford Glass, Merck, Monsanto Chemical, National Biscuit, National Dairy Products, Otis Elevator, Owens-Illinois Glass, Philip Morris, Safeway Stores, Sharp & Dohme, Sterling Drug and U. S. Tobacco. A good many others could be mentioned. We cite these stocks merely in connection with their recent price behaviour and by no means as recommendations. The fact that they have shown above average resistance to recent selling cannot as yet be taken as prima facie evidence that they have made a bottom that will stand for some time. Still it proves what we said at the outset. That this is a market of stocks!

Comparing Group Performances

On the same comparison relatively good group action has been shown, among others, by aircraft stocks, air transport, chemicals, cement stocks, drugs, finance companies, food-store chains and variety chains, motion pictures, tires, tobacco companies and utilities. The more important groups faring somewhat poorly on this test include farm machinery, auto stocks other than Chrysler and General Motors, building materials other than cement, coppers, machinery, oil, office equipment, paper, rail equipment, department store stocks, steel and textiles. Given a general stand by the market, most of these will prove to have been over-sold.

Regarding the economic situation, President Truman says we are having a levelling off which everybody has wanted, and we ought to be happy about it; Economist Nourse, (*Please turn to page* 600)

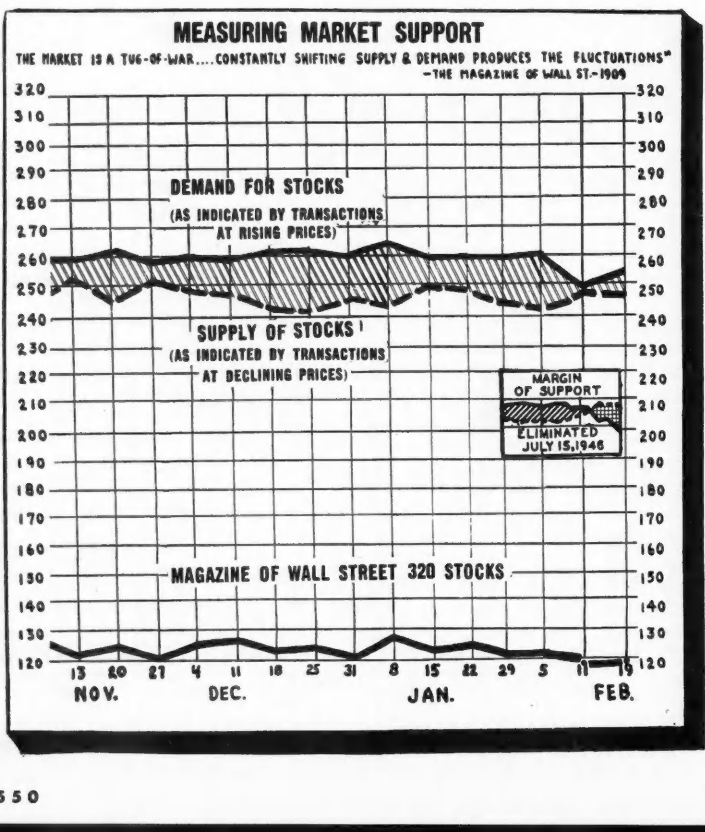
Watch Individual Issues Rather Than Market

There is a chance for a recovery of some proportions from the close vicinity of the recent lows. The current indications, while tentative, are encouraging. In view of many divergences within the market, we continue to put chief emphasis on selectivity. There is no change in advised ratios of reserves to stockholdings.

By A. T. MILLER

Market action over the near term will bear close watching, for there is a chance that the level reached by the general list late in the trading week ended February 11 will stand as the low for some time to come, from which another good trading-range upswing could develop. It is not possible at this writing to say that such an outcome appears probable, or to have a conviction that the chance for it is much better than 50-50. But it is good enough, we think, to suggest that this is a poor time for pessimism — and a time when investors should be on the alert for buying opportunities in well-situated individual stocks, especially if they hold more conservative cash reserves than we have heretofore advocated (about 25% in average accounts).

From a technical point of view, it boils down to this: There can be only a moderate downside risk at present unless one assumes that we are in a major bear market which will soon see the January-February sell-off extended into a decisive penetration of the key support levels maintained in the broad trading range of the past two years. It must be conceded that this is a possibility; but for it to come will require the development of a consensus of market opinion — certainly not yet indicated — that corrective adjustments in the economy will begin to spiral this spring into a more general deflation than stock prices have yet discounted. As to the economic aspect, more later in this discussion.



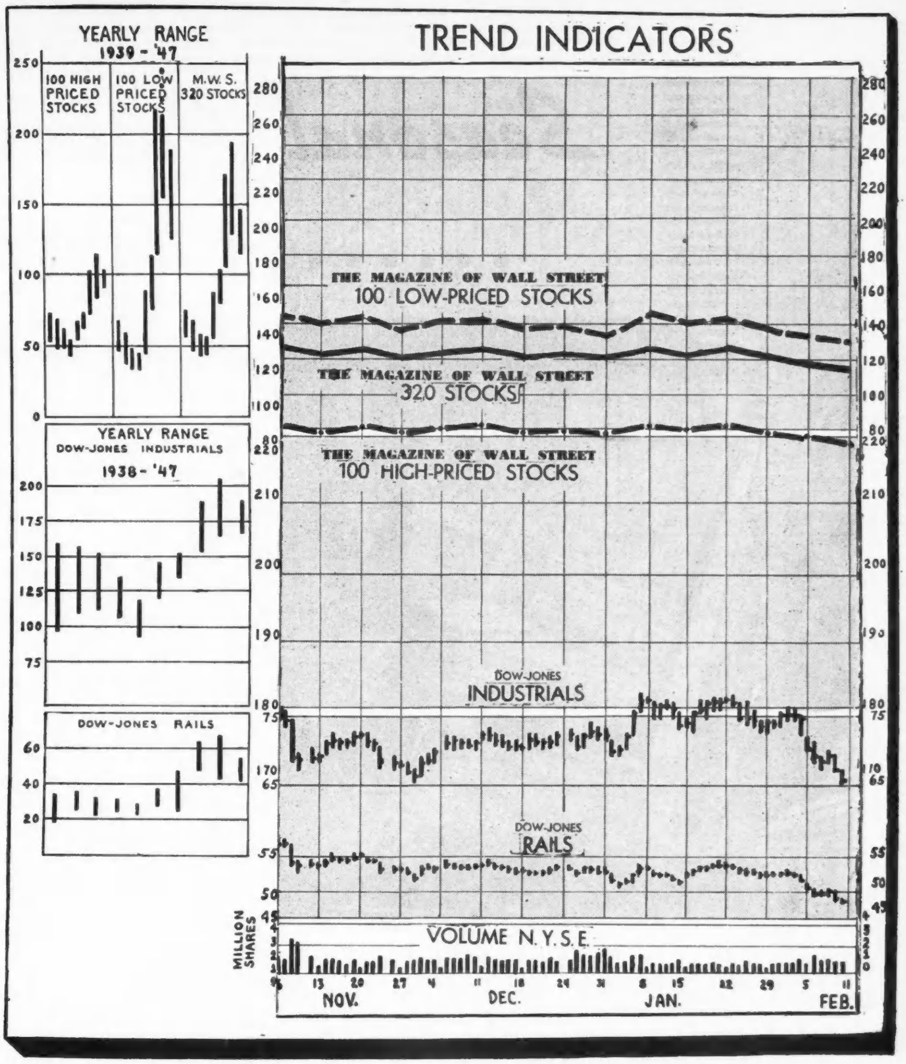
Our Technical Appraisal

It takes a liquidating movement of broad proportions to put the general market significantly under clearly defined support levels which have been maintained on repeated tests over an extended period; just as it takes very strong investment demand to put average stock prices much above supply areas within which advances have terminated repeatedly. Traders ought to love this market, for rarely have both key support and supply areas become so sharply defined as has been so for the last two years and more. On the contrary, aside from the numerous good dividend yields which are available, investors can be happy in this kind of market — a market of limited general price swings since autumn of 1946 — only if the individual stocks held are capable of performing substantially better than the general list.

It is the old support area which now concerns us, for the market is in it, as is best brought out by our composite weekly index of 320 stocks. Its 1947 low was 11.5; 1948 low 119.0; and the February 11 low, from which there has now been a slight and dull rebound, was 115.8. The comparisons are similar for the indexes of 100 high-price and 100 low-price stocks. Even the much less representative Dow industrial average, closely watched by most traders, was, at its recent low, only about 3.5% away from its 1948 low and less than 5% away from its double-bottoms of 1946 and 1947.

If there is significance in the old support levels and in over two years of wary anticipation of economic read-

justment — and we think there should be — this is the place (the approximate vicinity of the recent lows) where it would be logical to expect the market to make a stand, if it is not going to crumble. The current indications point tentatively to a stand — tentatively because they are not emphatic and the period of observation is a short one, the February 11 low being only 10 days behind as we go to press. These indications so far are generally similar to those which accompanied establishment of a "slow bottom" in February - March a year ago, which was followed by a rise of nearly 28% in our composite index. Selling pressure has waned; demand has improved a little; selectivity is re-emphasized. After meeting, but not crossing, the lines on the accompanying Support Indicator chart have pulled apart a little in the right direction. Continuing for a while, this kind of action will be more impressive than could have been that provided had a fast and relatively sharp rebound developed from the recent low.



It remains, of course, "a market of stocks." This is emphasized by comparing the February 11 lows of individual stocks with those of last November 30, where the post-election sell-off climaxed and the moderate year-end rally (running to January 22) started. That low was broken by all broad averages or indexes and by the great majority of the stock groups for which we keep weekly indexes. On this comparison, however, a number of stocks show to advantage, some markedly so. A partial list includes the following:

American Agricultural Chemical, American Can, American Chicle, American Home Products, American News, American Power & Light, American Seating, Borden, Bristol-Myers, Chrysler, CIT Financial, Columbia Gas System, Commercial Credit, Consolidated Natural Gas, Corn Products, duPont, Endicott Johnson, Firestone Tire, First National Stores, General Motors, International Business Machines, Joy Manufacturing, Kroger, Lehigh Portland Cement, Libby-Owens-Ford Glass, Merck, Monsanto Chemical, National Biscuit, National Dairy Products, Otis Elevator, Owens-Illinois Glass, Philip Morris, Safeway Stores, Sharp & Dohme, Sterling Drug and U. S. Tobacco. A good many others could be mentioned. We cite these stocks merely in connection with their recent price behaviour and by no means as recommendations. The fact that they have shown above average resistance to recent selling cannot as yet be taken as prima facie evidence that they have made a bottom that will stand for some time. Still it proves what we said at the outset. That this is a market of stocks!

Comparing Group Performances

On the same comparison relatively good group action has been shown, among others, by aircraft stocks, air transport, chemicals, cement stocks, drugs, finance companies, food-store chains and variety chains, motion pictures, tires, tobacco companies and utilities. The more important groups faring somewhat poorly on this test include farm machinery, auto stocks other than Chrysler and General Motors, building materials other than cement, coppers, machinery, oil, office equipment, paper, rail equipment, department store stocks, steel and textiles. Given a general stand by the market, most of these will prove to have been over-sold.

Regarding the economic situation, President Truman says we are having a levelling off which everybody has wanted, and we ought to be happy about it; Economist Nourse, (*Please turn to page* 600)

Seasonal Pattern ......or Recession?

By E. A. KRAUSS

The hesitation and slackening in business noted since last November has taken on more concrete form since the turn of the year and the existence of recessive trends in the economy can no longer be doubted. While general opinion holds that anything even approaching a depression is out of the question in view of existing strong supports, there is a great deal of uncertainty about just how far the decline is likely to go, and how long it may last until equilibrium is restored. It will take some time before the answer to these questions will evolve. Doubtless a test is in the offing and the next few months may bring an important showdown.

It is widely recognized that seasonal factors had a great deal to do with the unfavorable January business results, but seasonal factors alone do not explain the extent of the let-down in recent months. It is this that makes businessmen uncertain. They realize there has been a basic change in conditions, a change currently accentuated by seasonal patterns. The difficulty in appraising the outlook is to establish with any degree of assurance just how much of the decline is seasonal, how much genuinely recessive.

The extent of recovery from the seasonal dip will clarify this point, one way or another. If no seasonal snap-back in business occurs a few months hence, we shall know that recessive trends are far more deep-seated than many now believe, and they may then be further aggravated by extensive inventory liquidation and all it implies in terms of production cutbacks, rising unemployment and sharp price declines in many fields. Though possibly of short duration, such a "shake-out" would be bound to spell trouble for many businesses, and would seriously disturb business sentiment with adverse repercussions on management decisions in respect to business investment and employment.

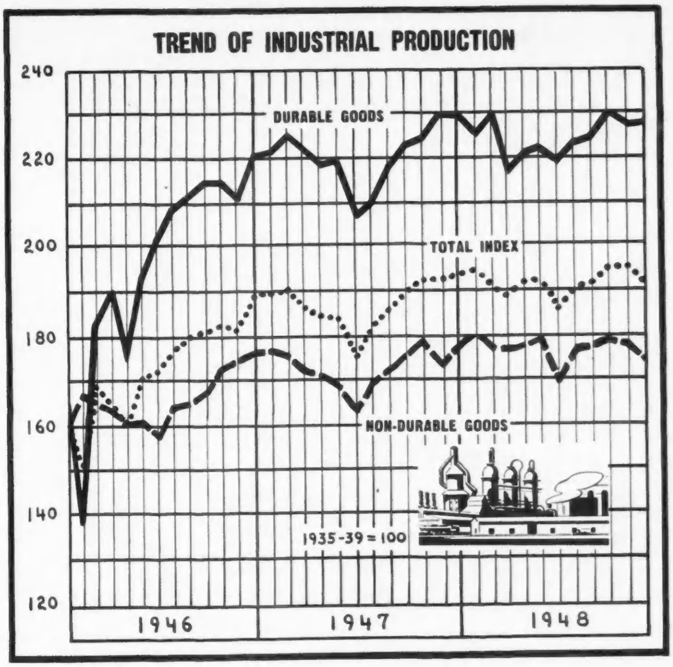
A satisfactory seasonal pick-up, on the other hand, should permit continuation of the economic adjustment process in orderly fashion, without incisive chain reaction on the overall economy, and within the framework of relatively high general activity. It would hardly mean resumption of the boom unless this is brought about by introduction of new outside factors not now foreseeable. But it would portend a satisfactory year as a whole, with no more than a gradual rate of decline as adjustment proceeds. The question: What shall it be? is naturally uppermost in everybody's mind.

At this juncture, with things in a more or less precarious balance, it is understandable that any sign of apparent weakness, including the return to prewar seasonal buying patterns, raises concern about the imminence of a sharp downturn, particularly as in some fields this has already occurred. Hence reactions to influences which affect business one way or another are showing up fast today. Business sentiment is likely to remain sensitive until there is a clearer view of what's ahead.

Seasonal Patterns Are Normal

Seasonal patterns, a normal experience in prewar when it disturbed no one unless they were extreme, have been slow in re-emerging during the postwar, though for the last two years there have been increasing signs of their return. (See accompanying diagrams.) Even with all the artificial stimulants that were operating, late spring and early summer have usually proved somewhat uncertain (within the general pattern of high economic activity), and the seasonal let-down this year will be more pronounced than ever. This is a foregone conclusion in respect to those lines where buyers' markets have returned; they include the entire range of soft goods and an increasing number of consumer durables as well. But the postwar has produced another seasonal fixture, unknown before the war in its present importance: The spring tax dates when Federal and

State Governments take big slices out of business and personal incomes. Though many taxpayers, corporate and otherwise, may be prepared for this annual "blood letting," it is not exactly a stimulant, particularly when things are heading downward.



Numerous Soft Spots Exist

Recessionary indications of late have been numerous, highlighted by a disappointing flow of new orders to manufacturers and by a contra-seasonal rise in unemployment. As it is, soft spots continue to look soft and have become more numerous, counseling greater caution in forward operations almost everywhere. Not only has there been a marked increase in unemployment, the Dec. 15 to Jan. 15 gain of 700,000 bringing the total to an estimated 2,650,000 by mid-January, but the figure is almost certainly higher now. Additionally there has been a widespread shortening of work weeks as reflected by a drop of 1,358,000 in the number of persons who worked 35 hours or more. The Census Bureau which compiles these figures, makes no bones about it that the lay-offs are the result of non-seasonal cutbacks in production.

Elsewhere, the post-Christmas retail sales rush generated chiefly by substantial price mark-downs and bargain offerings has petered out quicker than expected. Running 8% a year ago in the initial January week, the margin of department store sales in subsequent weeks narrowed to 5%, then to 2%, and during the last two reporting periods sales were 7% and 4% respectively below a year ago.

Car loadings, an important indicator of business activity, have been falling consistently behind 1948. Business failures, particularly among new concerns, are on the rise. The general price level has flattened out and the pressure on commodity prices has once more resumed drastic proportions as witness the recent sharp breaks in virtually all farm commodities.

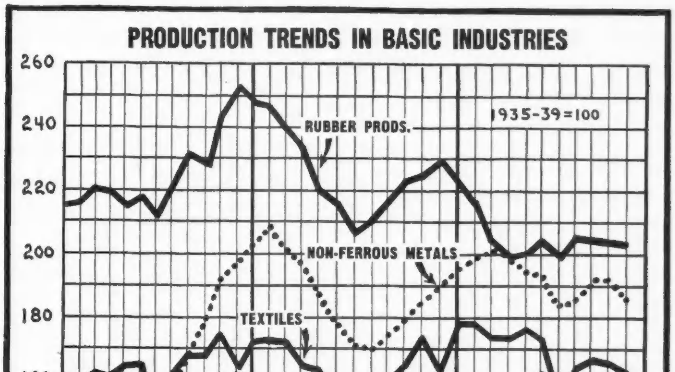
In short, there is ample evidence that important shifts are taking place. Broadly, it is a shift of business from a scarcity to a replacement basis made possible by increased supplies of goods and the resultant shortening of delivery dates which is placing much of business from a forward to a current basis. If too many such shifts, in individual industries, coincide, it is bound to upset orderly adjustment. If not, they may be painful to the industries affected without, however, disturbing the entire economy too much.

The Recent Price Break

Latest developments on the price fronts are calculated to accentuate the tendency to favor short term buying and avoid forward commitments, and may foster greater efforts to reduce inventories to levels consistent with the changing situation. By way of contrast, last year's break in commodity prices had far less impact upon wholesale price structures and manufacturers because consumer demand had not shown any tendency to flag and consumer resistance was more of a threat than an actuality. This time it's different. Declining retail sales have made for cautious inventory policies and skimpy ordering, and manufacturers have no backlogs to cushion decreases in new orders.

The hope of course is that prices will soon settle to firmer levels, and that the period of adjustment will be followed by stabilization. Some of the price declines may even be found to have been exaggerated by speculative selling.

The general adjustment process in industry so far has taken place in individual lines without greatly denting overall prosperity. Industry after industry



has shaken down to its new market potentials — shorn of former scarcity and deferred demand aspects — while the nation's aggregate production has been holding high. But the tempo of readjustment is quickening as we approach the final phase of the shift to a new supply-demand basis and customary seasonal patterns.

Where Seasonal Patterns Are Prevalent

The latter, as previously stated, have returned to many lines as amply attested by the trend of retail business. In most of them, inventories are now overloaded, particularly in textiles, shoes and leather products, manufactured food products and others. In consumer semi-durables and durable goods, such as rubber products, glass containers, furniture and the majority of electric appliances, much the same is true. In coal and even petroleum, the slackening of demand reflects in part the unseasonably warm winter in major consuming areas, but there are also signs of overproduction. Most grades of lumber and many building materials are once more in ample supply and demand henceforth will follow the seasonal pattern of building activities.

The seasonal character of many of the changes in business is particularly felt by the railroads, leading to substantial if temporary reductions of operating and maintenance forces. Carloadings, a sensitive barometer of revenue freight traffic, are running around 9% below their rate of 1948. This means that railroads can haul the freight load with smaller numbers of cars and locomotives. And with less rolling stock operating, the need for heavy repairs and maintenance is lightened. Of course, a variety of factors are involved. Coal loadings were reduced in the East because of ample industrial stockpiles and mild weather, while severe weather in the West interfered with train movements. Additionally, business inventories in many lines are more than ample and coupled with lessened demand result in hand-to-mouth buying policies and smaller freight movements of goods. The future trend of caroadings therefore will be an excellent indicator of how business is doing. Doubtless the seasonal factor considerably contributed to the declining trend in recent weeks though more basic forces were also at work.

No Signs of Major Recession

Despite the latter, it would be premature to characterize as general, or even major, a recession which is not cutting production of steel or, with minor exceptions, of automobiles, of non-ferrous metals and of most capital goods. The latter group will feel recessive impacts only if the outlook for consumer goods should deteriorate more markedly. In the meantime, most capital goods lines have enough business on their books, or in sight, to sustain a high operating rate for a considerable period.

Still, despite these evidences of strength in various basic industries, one aspect is common to all: Demand is less urgent as pipelines are filled, permitting the return of business to a current basis. This is true even of the steel market which, while still tight, has lost much of its scarcity aspect. In the long run, then, if high-level economic activity is to continue, current consumption will have to match current production, and a greatly expanded production at that. To adjust both so that they sustain each other will be no small task, and some sort of downward adjustment to more realistic levels is inevitable.

A great deal depends today on what steps business takes to keep the public buying. The public, either well supplied or unable to buy anything but essentials at today's high prices, must be sold again since it is no longer in the market in the former big way. Postwar buying fever has definitely cooled.

Business is acutely aware that high operating costs and high prices are at the bottom of much of current troubles. Only lower prices can stimulate consumer buying, hence it is important that downward price adjustments are made as quickly as feasible. If for lack of such adjustment, public consumption falls further, production and employment will have to be cut further. While this may *force* prices lower, it may then be too late to do much good since the recession tide may then be running too deep with unemployment reaching a point where industry's output, even at lower prices, can no longer be absorbed. Hence the need for quick action on the cost and price front. Incidentally, such action, especially as far as cost-cutting is concerned, is now much more widespread than generally assumed. Industry has become acutely economy-minded and increasingly concentrates on efficiency of production and greater worker productivity. It is a move in the right direction.

Industry in Another Transition Phase

Clearly, industry is once more in a transition period and it will soon have to demonstrate whether it can weather this transition, from inflationary boom to a more normal and stable demand-supply basis, without major recession. The transitional pangs are intensified by seasonal drags now increasingly numerous. It is the seasonal dips in many lines that are obscuring the force of recessive tendencies accompanying the present advanced adjustment phase. Conversely, the nature of the seasonal pick-up during the coming months should tell us whether the transitional recession will be mild or more severe.

To what extent can a seasonal upturn or revival be expected by spring or early summer? The question involves practical as well as psychological considerations. If managements continue to make adjustments, without panic or undue gloom, to new, normal selling conditions dictated by price-quality conscious buyers, and if unexpected adverse developments do not offer new discouragement to business plans (particularly in the legislative field), the prospect of a business revival borne on a new wave of optimism by mid-year would seem to be fairly good.

In all this, it is well to remember that not just the return to seasonal patterns but also the present pattern of price reduction and curtailment of some production, while causing considerable apprehension, has not only been long overdue but is eliminating gradually the excessive use of equipment and manpower which has prevailed ever since the war. This tends to restore equilibrium all around and permits more attention to cost factors resulting in lower prices; in this very balancing of economic forces lies the hope of avoiding a general recession.

Moreover, while the tempo of the initial postwar years has slowed down significantly, many factors of strength continue to exist. One of the strongest are Government policies designed to rearm the U. S. and friendly nations, the ECA program, and a host of local government expendi- (*Please turn to page* 598)

Companies . . . . . REPORTING LOWER EARNINGS *. . . . . in Year-End Statements*

By RICHARD COLSTON

Among the several hundred corporate reports already issued for 1948, including many companies whose fiscal years closed prior to December 31, a good deal of interest seems to be attracted to those showing a decrease in earnings as compared with 1947. It is natural and proper that such unfavorable earnings trends be given special attention, not only by investors but also by the banks and insurance companies holding short- or long-term loans. In analyzing the causes for the declines, it is important that three general qualifications be kept in mind if sound conclusions are to be drawn.

First, the companies showing declines represent the exceptional cases, rather than the typical experience. A majority of the listed industrial companies had increases last year in both sales and net income. While it is true that those revealing a profits squeeze comprise a steadily growing proportion of the total, they still are in the minority. In this study, therefore, we are dealing not with general earnings trends, but with counter-trends.

Second, in weighing the various factors responsible for lower earnings, it is impossible in most cases to single out any one prime cause. Regardless of the fact that one may often find a predominating cause such as reduced volume, or lower selling prices, or higher expenses, the only really significant relation is that of total costs to total revenues. Such ratio may, however, be greatly distorted by special circumstances, such as unusual charges from strike losses, inventory write-downs, extraordinary reserves, or credits of a nonrecurring nature such as from capital gains, tax refunds, or withdrawal of reserves.

Third, the relative decline in 1948 earnings as compared with 1947 is in itself less important than the present position and future outlook. Last year's earnings are already history. Moreover, in many cases they were, even after the decline, at abnormally high levels.

Dividends generally were covered by wide margins, and might continue to rise this year even though earnings may further decline. Cash holdings will be subject to less drain for plant expenditures, as well as for financing inventories and receivables at rising price levels. At the same time, the cash supply will be augmented by larger depreciation charges, which do not involve cash outlay.

In order to examine the widely divergent trends among different major industries and their individual producers, the accompanying tabulation has been prepared for thirty companies reporting lower earnings in 1948. This shows the comparative changes in net sales, costs and expenses, ratios of costs and expenses to sales, net income per share, and dividends per share. It is not confined either to big or small companies, but includes a heterogeneous sampling with sales volume ranging from less than $1 million to over $2 billion.

A glance at the table shows such mixed changes that there are only two things the thirty companies have in common, namely, that the cost-sales ratio was higher, and that net income was lower. Thirteen had increases in both sales and costs; seven had lower sales but higher costs; while ten had decreases in both sales and costs.

Dividend payments, if any, by only ten companies were lower, whereas those by thirteen were higher, and by seven unchanged. In view of the fact that earnings were lower in every case, this dividend record affords another illustration worth pondering of the dangers inherent in generalization and over-simplification.

Sharp Drop in Meat Packers' Earnings

The largest industry group represented is meat packing, with seven companies whose fiscal years close around October 31. These may be considered in somewhat more detail than space will permit for all of the companies, because not only of the importance of meat packing in itself, but also of the change taking place in the agricultural situation and the effects it seems likely to exert on business generally.

Armour & Co., despite slightly larger sales, reported that: "Due to a strike which affected our company with particular severity and to several unfavorable price situations, we sustained a loss just short of 3/8 of 1 cent per pound on our domestic meat operations."

Cudahy Packing Co. stated that: "The principal cause of our reduced volume and lower tonnage was the fact that our major plants were strikebound for two and one-half months. Our tonnage was also affected to a lesser extent by the smaller supply of livestock."

Rath Packing Co. spoke of the strike losses not only to the employees but to the farmers and the company as well, and added that: "In addition, prices of livestock and product remained at an extreme high level during most of the year and your company's results were affected to a lesser degree by the decline in inventory prices."

Swift & Co., showing that sales increased slightly but that net earnings declined from 1.5 to 1.2 cents per sales dollar, or to less than 1/4 cent per pound of meat, made a classic understatement in pointing out that: "Measured against the costs of doing business, our profit was modest. Today's costs are high — whether for livestock, raw materials, construction, repairs, employment costs or other expenses. These mounting costs demand even closer scrutiny on the need for efficiency and teamwork."

Wilson & Co., with slightly lower sales, reported that: "Aside from the strike of plant employees which adversely affected our 1948 results, earnings for the year were also reduced by abnormal price changes and because costs increased more than selling prices. On our entire business we paid out in 1948 for livestock, raw materials, wages and salaries, taxes, expenses, etc., a little more than 99 cents for each dollar taken in."

Factors Endangering Profits

From these brief excerpts from the reports of such large and well-known organizations, several lessons may be drawn as to factors that may endanger profits: (1) Industry-wide strikes that may be called by the dominating labor unions. (2) Increased labor costs. (3) Excessive raw material prices, supported by the Government from taxes upon the people. (4) Extremely narrow profit margins. (5) High break-even points for profitable operations. (6) Inventory risks. (7) Inability to pass on rising costs because of the limits of consumer purchasing power and resistance to high prices.

For 1949, the outlook for meat packing is improved, due to the lower level of livestock prices. Historically, the industry has usually achieved its best results upon a low but stable price level, where the profit comes from the tremendous volume of meat sold and from by-products.

Whether or not the recent sharp decline in prices of farm products will be permanent, or go still further, is of course a matter of opinion.

Referring back to the table, it may be pointed out that the two most prevalent causes of lower earnings are those already noted in the meat industry, namely, the rise of costs, and the consumer resistance to higher prices.

In the brewing industry, for example, a majority of the 1948 reports published to date show lower earnings, and the same is true of soft drinks, though not, as yet, of distilling. Competition in these lines has become extremely keen. More mergers are likely.

Consumer Goods Industries

A majority of decreased earnings likewise was reported in such consumer goods industries as leather tanning and shoes, paint and varnish, tires and other rubber products, where competition and some overproduction has narrowed profit margins. In most cases, however, the 1947 returns were unusually favorable.

Motion picture company net income dropped sharply last year due to lower earnings from domestic threatre exhibition, combined with restrictions by foreign governments upon the remittance to this country of foreign earnings. Hollywood is undergoing a drastic economy wave.

On the other hand, the general trend of earnings last year was upward in such industries as chemicals, iron and steel, electrical equipment, machinery, and building materials. Those companies in the table showing a downward trend reflect their difficulty in controlling their cost-sales ratio.

The latter problem, common throughout business, is stated clearly by the Glidden Company, which despite a sales increase from $186 million to a record $202 million, had a drop in common stock earnings from $7.57 to $5.04 per share. This company, whose diversified products now include not only paints, varnishes, pigments, and naval stores, but also foods, soybean products, vegetable oils, livestock and poultry foods, as well as specialized metals, minerals, and chemicals, reported that: "Wage and salary increases were necessary to keep pace with the rising costs of living, and other manufacturing costs increased proportionately. Price rises are no longer the quick answer to a higher level of costs. Greater efficiency in production and in distribution is the only answer."

Volume and Costs — Key Factors

From this analysis of corporate reports showing lower earnings in 1948, two simple tests stand out that might serve as guides to investment policy in the future. These are, first, what volume of sales a particular company is likely to obtain, and second, how well its costs can be controlled.

As to the first, it is a question of how seriously the present slackening in employment, production, transportation, trade, farm income, etc., will affect the demand for the different products that are in ample supply, or that are still short.

As to the second point, it is a question of at what prices that company's sales can be obtained. Will it be able to maintain a premium price for widely-advertised quality merchandise, or will it have to cut prices to get business? Can it maintain a normal spread between its costs and selling prices, or must it slash prices regardless of costs?

Has the management demonstrated that its costs are flexible on the downturn as well as the upturn? A strong and well-managed organization usually is able to prosper even when the going is hard, and often is able actually to improve its competitive position under such conditions.

Too heavy reliance on the replacement market for tires and tubes adversely affected earnings of Norwalk Tire & Rubber Company in its fiscal year ended September 30, 1948. Throughout the entire rubber

industry the final satisfaction of pent-up demand for replacement items in this special field curtailed production schedules, though original equipment sales and expanding business in non-tire items proved an effective offset. Norwalk Tire & Rubber, as it happens, is a relatively small concern that during a favorable year like 1947 made fairly good profits by selling 73% of total output to distributors of replacements, but as demand fell off and competition stiffened in 1948, volume dropped 36% and a deficit of 48 cents per share was incurred. The company also produces rubber footwear, a more profitable item, but sales in this division are not enough to compensate for reduced volume at the tire end. While 1949 may bring a somewhat improved position, the outlook for this concern does not seem very encouraging, especially as more working capital is needed.

South Porto Rico Sugar Company's earnings developed a downtrend last year mainly because of poor weather conditions in the Dominican Republic. The company's Dominican subsidiary was able to produce only about 176,000 short tons of sugar in 1948 compared with more than 212,000 tons in the previous year. Output of sugar by the Puerto Rican subsidiary, though, was slightly increased but not enough to count for much. Net earnings in 1949 may improve, for crop conditions in both Puerto Rico and the Dominican Republic are favorable and the entire crop in the latter country has been sold to Great Britain on satisfactory terms. Sugar derived from Puerto Rico is being sold to customers in the United States at prevailing prices. The management cautions that much lower prices in 1949 are to be expected for molasses but sales of this commodity account for only about 6.5% of total revenues.

Recovery After Dip

A dip in net earnings of Lukens Steel Company to $7.58 per share in fiscal 1948 in contrast to $9.47 a year earlier chiefly reflected increased production costs. Sales of $61.4 million were the highest in the company's 138 years' business history, but income after taxes represented only 3.9% of volume compared with 5.3% in 1947. Maintenance costs rose sharply last year, due to heavy wear and tear on facilities under the stress of long sustained capacity operations. Costs of this kind totaled $5.5 million, or 9% of gross sales. That these handicaps were transitory is shown by a rather spectacular reversal of the earnings trend in the first quarter of the new fiscal year. Net per share soared to $4.10 compared with $1.53 for twelve weeks ended January 22, 1948, aided by an advance of $5 million in volume. As Lukens has planned expenditures for rehabilitation and modernization of only $2.5 million in the current year and demand for the company's enlarged output shows no signs of diminishing, prospects for a good year are rather bright.

Spencer Shoe Corporation, in common with other concerns in its industry, experienced lower sales last year, although in this case the drop was moderate. Volume of $10.3 (*Please turn to page* 596)

Sales and Cost Trends of Companies Reporting Lower Earnings in 1948

	—Net Sales— ($ million)		—Cost & Expenses— ($ million)		Ratio of Costs & Expenses to Sales		—Net Per Share—		—Divs. Per Share—	
	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947
American Beverage	$ .9	$ .9	$ .7	$ .6	77.7%	66.6%	$ .04	$ .17	Nil	Nil
Armour & Co.	1,991.4	1,956.5	1,963.3	1,876.6	98.5	96.0	def1.22 a	6.76 a	$ .90	Nil
Automatic Canteen	20.6	17.9	20.4	17.6	99.3	98.4	1.53	1.66	1.00	$1.00
Brewing Corporation of America	11.7	13.8	11.1	10.4	94.8	75.2	def6.23	12.01	1.87	2.50
Brown Shoe	84.4	76.0	79.5	69.6	94.2	91.7	4.87	4.98	2.00	2.00
Cornell-Dubilier	11.4	15.1	10.8	9.4	94.6	62.2	.84	1.87	.80	.80
Devoe & Raynolds "A"	42.3	42.1	38.3	37.1	90.0	88.1	4.41	5.62	2.60	1.60
Flintkote Co.	81.3	73.6	57.1	51.3	70.3	69.8	5:86	6.27	3.00	1.50
Cudahy Packing	567.9	572.7	544.0	540.5	96.5	94.7	.36	4.32	.60	.81
Glidden Co.	202.3	185.8	185.9	162.3	91.5	82.2	5.04	7.57	1.90	1.10
Guantanamo Sugar	6.5	7.9	4.6	4.9	71.0	62.0	2.27	4.83	1.00	.25
Harvard Brewing	3.8	3.7	2.6	2.3	68.4	62.2	def.17	.20	Nil	.10
Hercules Powder	129.3	131.3	105.2	103.4	81.2	78.5	3.97	4.75	2.25	2.00
Hygrade Food Products	160.5	173.2	146.5	156.9	91.0	90.0	1.78	3.41	1.00	1.75
Lee Rubber & Tire	35.7	37.2	32.0	32.9	89.7	88.8	7.87	9.47	3.50	3.00 b
Lukens Steel	61.5	52.8	52.6	43.5	85.3	82.4	7.58	8.92	1.50	1.00
Norwalk Tire & Rubber	6.3	9.9	6.4	9.5	102.0	96.0	def.47	1.00	Nil	.37
Outboard, Marine & Mfg.	31.5	29.1	27.2	23.9	86.2	82.1	3.39	4.38	1.50	1.50
Rath Packing	185.8	205.8	182.9	200.5	98.7	97.7	2.95	4.19	1.40	1.75
South Porto Rico Sugar	30.5	34.7	22.3	22.9	73.0	66.0	6.98	12.00	9.50	7.35
Spalding (A. G.) & Bros.	23.4	24.2	16.1	15.9	68.8	65.9	5.04	7.00	1.50	1.75
Spencer Shoe	10.3	10.7	8.5	8.6	82.5	80.4	def.43	.26	Nil	.50
Superior Steel	18.8	16.6	16.1	13.7	85.5	82.3	3.44	3.98	1.25	1.00
Stahl-Meyer	36.0	26.4	35.7	25.7	99.1	97.4	.40	1.65	Nil	Nil
Sutherland Paper	27.0	25.2	23.3	21.1	86.5	83.8	6.02	6.87	2.50	2.50
U. S. Leather	26.4	32.4	23.9	25.5	90.8	78.8	def1.25	.93	.50	Nil
United Stockyards	7.0	7.1	4.3	4.1	61.6	52.8	.66	1.05	.40	.40
Universal Pictures	58.0	64.9	62.1	58.8	107.0	90.2	def3.59	3.11	.75	2.00
Swift & Co.	2,361.1	2,248.7	2,264.0	2,168.0	95.9	95.8	3.02 a	3.77 a	2.60	2.10
Wilson & Co.	704.7	738.3	636.1	662.4	90.3	89.9	2.70	6.82	2.00	.95

(a)—After special charges. (b)—plus stock.

BUSINESS SPENDING

As Economic Factor in 1949

By WARD GATES

The record volume of postwar capital expenditures by industry has been a mainstay of the boom particularly during the last two years. Since the war's end, American industry has been engaged in a very large program of replacement, improvement and expansion, and such outlays have increased progressively, from $12 billion in 1946 to $16.2 billion in 1947, and culminating in what is likely a peak that will stand a long time — $18.8 billion in 1948.

Naturally, capital spending of such scope constitutes a strong economic stimulant. Equally naturally, any hopes to stabilize business activity around current high levels cannot be fulfilled if business spending should be cut drastically. This is all the more true in view of the downward adjustment already well under way in various non-durable goods industries, and incipient readjustment in certain durable goods lines. A more pronounced contraction in the latter field could easily set off a recession spiral.

Only a year ago when inflation was still regarded as the nation's outstanding economic danger, there arose a tendency to discourage capital outlays. Tighter credit and firmer interest rates were sought to that end. Today it's different. Scattered reports tell of plans for cutting down industry's capital expenditures, and though plant and equipment outlays promise to continue relatively heavy this year since many projects are in process of completion, some observers look for an overall decline of as much as 20%. Such a drop, coupled with a further weakening of consumer buying, would mean a considerable blow. What are the prospects? It is an important question, for there is hardly any disagreement that the volume of expenditures for plant and equipment during 1949 will be a crucial factor in shaping future trends.

By the middle of last year, it was evident that the uptrend in capital spending had leveled off, and fourth quarter outlays of some $5 billion just about equalled those of the third quarter and of the corresponding period a year earlier. SEC and Commerce Department which jointly undertake quarterly surveys of anticipated capital expenditures, are optimistic about the first quarter of this year, for which they foresee outlays totalling $4.4 billion, a new high for any similar period in any previous year. The significance of this estimate — based on expectations voiced by business men after the elections — is that business spending will continue to play an important part in keeping economic activity at a high level, at least in the more immediate future. One quarterly period of course does not make the year, and plans can always be changed.

Nevertheless it is significant that all but one of the major industries (see accompanying tabulation) expected either to maintain or surpass the dollar volume of capital investment of early 1948 — a year in which as a whole, both the dollar and physical volume of such outlays exceeded any other on record. Railroads planned to boost expenditures above the comparable quarter of 1948 by nearly 40% to $370 million and utilities were planning an increase from $500 to $680 million. In manufacturing, mining, and commercial and miscellaneous industries, it was anticipated that capital investment would be roughly maintained. In manufacturing, moderate declines in some of the soft goods lines were countered by substantial increases in the electrical machinery, transportation equipment and petroleum industries.

Full Year Prospect Uncertain

If the outlook for the first quarter appears promising, the same cannot be said with equal assurance of prospects for the balance of the year. Tentative plans are not necessarily firm plans. This is particularly true now where the supply of most goods has caught up with or overtaken demand. Most manufacturing concerns have capacity sufficiently large to handle current and prospective orders, and in some fields there is evidence of overcapacity.

Thus future capital spending is bound to place less emphasis on expansion and more on cost-cutting modernization. As it is, a large part of the plant and equipment acquired since the war by manufacturers, utilities and railroads has replaced high-cost facilities that have become obsolete. In continuation of this trend, with new emphasis on costs and efficiency, rests the hope of a fairly high level of capital investment during 1949. And on this basis primarily, recently published private surveys anticipate a decline in this year's capital spending of no more than 5% to 10%.

Expenditures for New Plant and Equipment by United States Business

(Millions of dollars)

Industrial Group	1948 January-March	1948 April-June	1948 July-September	1948 October-December	1948 Total	1949 January-March
Manufacturing	1,800	2,140	2,090	2,160	8,180	1,780
Mining	180	200	200	180	770	180
Railroad	270	310	330	400	1,310	370
Other transportation	180	190	170	160	690	150
Electric and gas utilities	500	640	690	780	2,610	680
Commercial and miscellaneous	1,240	1,340	1,360	1,330	5,280	1,220
Total: Actual	4,170	4,820	4,830	—	—	—
Second estimate	4,480	4,690	4,950	5,010	18,840	—
First estimate	4,100	4,780	4,570	4,690	18,630	4,390

Note: Figures are rounded and will not necessarily add to totals.
Sources: U. S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

Need for Production Efficiency

Rigid labor costs, high break-even points and narrower profit margins together with the possibility of declining sales volume create difficult problems for business. But they are problems that can be solved by the substitution of more efficient and more economical productive facilities. As competition increases, as pressure for lower selling prices mounts, this thought is likely to be given heightened attention.

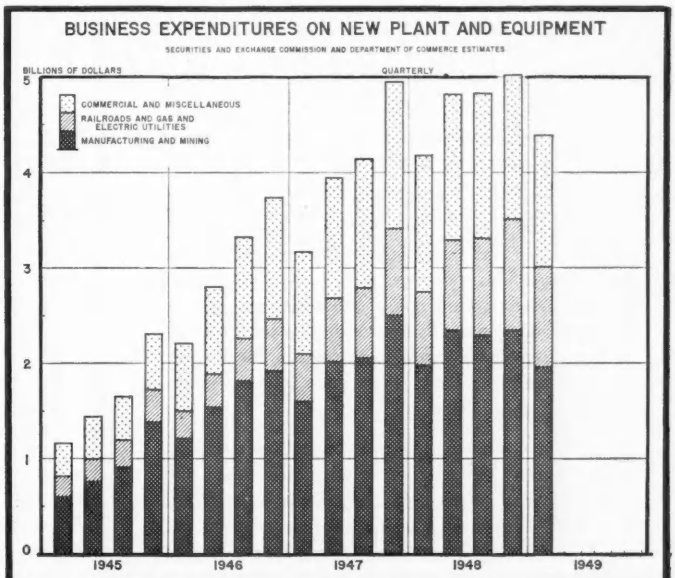
High costs of construction and other capital investments are frequently cited as compelling reason for curtailment and doubtless this has been and is now an all-important consideration for many concerns. Yet many have proceeded with their plans and will continue to do so, regardless of cost factors. Against the cost of acquiring new equipment must be set the competitive costs of not acquiring it, and the expectation of reward from the use of new equipment. The hope of maintaining adequate sales and profits in a steady and more competitive environment should be a powerful incentive to expand and modernize. Encouragement of such outlays should become a positive objective of Government, not only in the interest of economic stability but to maintain employment and raise living standards.

The profit incentive was great throughout 1947 and 1948 but the recent rate of corporate profits cannot be extended indefinitely into the future. In fact there is much doubt that 1948 profits can be maintained, either because of higher taxes or diminished business activity. Yet this very factor should encourage capital investment; to increase efficiency and reduce unit costs is an inducement to invest in new machinery and plant modernization that should not be underrated. Much of course depends on political and economic developments still to be clarified. If corporate taxes are sharply increased, plans for new capital investment are almost certain to be cut, if only because business profits now constitute the principal, and for some firms, the only source of funds for such investments.

All of which raises the question: Will there be sufficient capital available to finance continued large-scale business investments in the months ahead? Shortages of funds and general credit stringency have been characteristic of the peaks of former booms and usually have heralded their collapse. What's the situation this time?

Financing Problems

So far, a record volume of investment has been financed without difficulty though largely through internal means, and a real capital shortage is far from imminent despite the admitted scarcity of risk capital. Current profits for the most part are still high. So are corporate liquid assets though holdings of marketable securities in most cases are considerably smaller than a year ago. Since equity funds are difficult to raise, few corporations are probably considering such a course and new capital issues will continue to consist of a higher proportion of debt than many would like to see. But generally, and despite low interest rates, corporations are becoming more reluctant to borrow, hence the level of earnings and taxes will be particularly important determinants of future (*Please turn to page* 594)



Shifting Economy Slows Congress

By E. K. T.

SUGGESTION that the federal and state governments should re-examine their areas of tax jurisdiction received a polite cold-shoulder when Gov. Driscoll of New Jersey carried the idea to President Truman in a conference this month. Driscoll had been commissioned by the Governors' Conference to plead the case, found the Chief Executive "friendly but non-committal." It was significant that Driscoll didn't mention the subject of state taxes on federal properties—armories, post offices, navy yards, and the like; reason, probably, was lack of encouragement to do so. Local communities would gladly leave federal lands tax-exempt in return for exclusive right to tax liquor.

> **WASHINGTON SEES:**
>
> The Truman program in congress has been slowed down to a walk and there is every indication that it will amble along rather than speed through with the briskness which even the republicans were ready to concede two months ago when the session began.
>
> The delay cannot be accounted for solely by the loss of time in reorganizing congress after a switch of party control. The shifting economic picture is the real reason. Fundamental in the President's program was a fight on inflation—a war that was to be made up of skirmishes on many fronts, such as price control, farm price parity changes, huge new tax bills, and the like. But the decline in prices has changed the outlook, to an extent that cannot readily be evaluated until the benefits more fully reach the consumers. Congressmen, including Administration stalwarts, say they won't act until the reactions are recorded.
>
> Meanwhile, the White House is troubled over the delays. President Truman has increased the frequency of his meetings with legislative leaders and the word comes out of those gatherings that he is shifting emphasis from standby control legislation to the 4 billion new tax bill, hoping to "settle" for that. There is growing coolness to the idea on Capitol Hill.
>
> And in congress, Senator Scott Lucas, democratic leader, has appointed a staff of legal and economic experts to help committees "get things moving." They aren't being kept very busy.

BASIC DECISION must be made by congress soon as to whether ECA is to be a means for providing export markets for United States surpluses, or a European recovery program. Break in the grain market brought demand by some lawmakers that ECA stop buying wheat for export from Canada, and question also was asked why our meats are not being bought for export. ECA answer is that purchases elsewhere are helping to restore world trade by building up non-beneficiary countries, too. The answer is not completely satisfying senators from the surplus production areas and ECA will ask congress to make a flat declaration on the point if basic ideas are to be changed.

GOVERNOR DEWEY'S advice to the republican party to get rid of ultra-conservatives in its ranks will have no more effect than President Roosevelt's attempt to "purge" reactionaries from the democratic fold, or the Dixiecrat effort to chase the liberals out of the party of Thomas Jefferson. That was the first clear reaction on Capitol Hill to the Lincoln Day address. No speech from the 1948 Presidential aspirant was needed to tell the GOP high command that its ranks are split. They're painfully aware of it, but remind Dewey the opposition has done well with notable lack of unity.

LACKING in the Dewey address was a flat declaration that he considers himself through as a candidate for office. He described himself as a party elder statesman, offered a facetious definition of that term which carried only mild implication that he will not hereafter seek elective position. Some in high position here (the Taft ranks for example) believe he's already "running for President in 1952."

As We Go To Press

A drive for a general pension program for veterans of the wars in which this country has engaged is being generated on Capitol Hill with the open threat to congressmen that their choice is between pensions and a cash bonus. Memories of the World War I bonus, which had its culmination in the forcible ejection of vets from Washington by General Douglas MacArthur, under orders from Herbert Hoover, send shivers down the spines of the lawmakers. They want no repeat on that, are willing to settle for a general pension plan.

Cost of pensions would be enormous. It's necessary only to remind that 18,000,000 veterans might be eligible today, to support that fact. Rep. John Rankin is chairman of the committee in charge. He's confident he can conclude hearings by March 1, predicts two-thirds of both houses of congress will indorse the program -- available to all veterans, ill or otherwise, suffering from service-connected ailments or otherwise, at the age of 60 years. In the case of World War I vets, payments would be made to widows or other dependents in cases where the veteran has passed on.

Insurance companies may not be investigated with the degree of thoroughness that is proposed in a pending resolution, but it is unlikely that some of their practices will escape examinations. Senator McCarran of Nevada, and Rep. Cellar of New York, are the sponsors. Each is typed by his colleagues as a "crusader" but the effectiveness of their crusades in the past is a subject of some debate.

Projected is a joint senate-house probe. Suggested is a study of investment policies of the large life insurance companies and the degree to which they concentrate the nation's savings. Also believed to be objects of the inquiry are departures by the companies from the business of insuring risk, into the investment business, and the degree to which such sidelines build up operating costs which are ultimately, necessarily, passed on to policy holders.

More than 200 wartime plants are about to go on the market, but the government has adopted a policy of consulting industrialists and other informed civilians, in contrast to the earlier system under which disposals were made without regard to impact upon business or the job of possible reconversion to wartime production. Defense Secretary James V. Forrestal is selecting the businessmen who will decide whether a facility should be leased, sold outright, or sold with provision that they be maintained, and tooled, in a manner which will permit of ready return to defense use if necessary.

Release of the first report on government reorganization by the Hoover Commission allayed fears which had been expressed by friends of the movement to reduce overlapping and bring about a more orderly system at less cost to the taxpayer and with less inconvenience to those who must deal with government directly. The former President and his staff dealt with objectives and steered away from control of policy. It was that fact which prompted President Truman (who read the report before it went to congress) to speak out in praise of a job well done. And the propositions stand a better chance on Capitol Hill since they invade none of the lawmakers' domain.

Commentators who disagreed as to implications of most other phases of President Truman's batch of January messages to congress were in accord that they add up to "bigger government." The same suggestion runs through the Hoover report. While he would have fewer top agencies, his goal would be achieved by a grouping of functions under fewer headings rather than a general elimination. The economies

which are envisioned would come through slowing the growth of some independent bureaus, rather than stopping that spread. Not many jobs would be dispensed with; actually some new ones would be brought into existence.

At the beginning of February, the volume of money in circulation dropped to the lowest level since February 1945, and was 568 million dollars below the level of one year ago -- a condition which leads government fiscal agents to ferret out causes, and they are in variety. Reduced consumer spending and cash payments of income taxes to clear up year-end accounts as the next March 15 nears, are the more obvious. Price cuts, naturally, play a part. Increased savings bank deposits present the most tangible explanation, but comparison of the figures shows that it is not the most important reason behind the change.

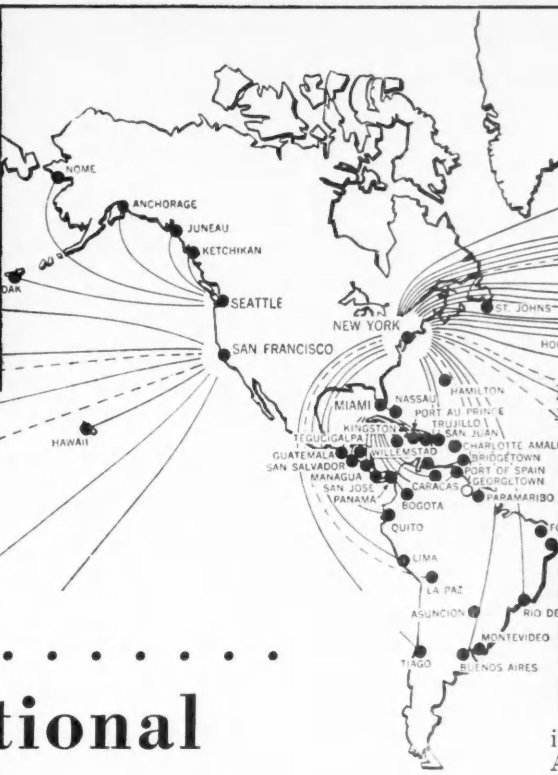
Labor Secretary Maurice J. Tobin has his own solution for the problem of "featherbedding" in industry. It comes in the form of advice to employers: don't hire or pay any employee whose services you don't need. It's just that simple -- except for the fact that the practice of requiring pay for standby "workers" is not described as featherbedding in the union contracts and in many industries it's a matter of accepting the demands on that score or suffer the consequences of a strike.

For example, on newspapers there is a contract provision insisted upon by the Interantional Typographical Union that type set for advertisements in one printshop may be used in the publications of another shop, only on condition that union printers be employed to set up identical "copy" -- and then throw it away! The second setting is never used for any purpose. But, the union leaders insist, to permit a second use of the original composition would deprive printers of jobs and demoralize the employment situation in their craft. The practice is duplicated, with minor basic changes in other industries. A locomotive engineer may pilot a passenger train across the United States, but when he arrives within a few hundred yards of a metropolitan terminal, he must turn the throttle over to a "featherbedder" to complete the run.

Tobin, speaking to newsmen after he had testified on the Taft-Hartley Act repealer had other interesting views. The closed shop in industry, for instance, is merely an exposition of the principle of majority rule and is as sound as the election system in the United States, says the Labor Secretary. He regards it unthinkable that any workman should share the advantages of wage and hours benefits gained by a union and still refuse to pay union dues. Tobin has a ready solution to the problems of workers who don't want to join the union: let them get jobs elsewhere! The Cabinet member sees the compulsory closed shop and union maintenance demands resting on high moral grounds. He adds: if the closed shop is morally good law it is good law for the entire United States. Ergo, state laws banning it must be wiped out.

Optimism is growing that the Truman Deal will become a Fair Deal, but only after much legislative milling about. None of the several groups claiming credit for re-election of the President is going to be completely happy but none will have grounds for too serious complaint, is the current forecast.

There is no prospect that a tax increase of the proportions envisioned by the White House will come about. The excess profits tax has been all but forgotten in the wake of bi-partisan protest that such a levy would work against expansion of business and industry, eliminate job possibilities. A budget close to balance, if not actually achieving that objective, is in sight. Labor legislation will be almost a carbon copy of the Taft-Hartley Act. Stability of farm prices is the aim, rather than handouts to agriculture. The 75-cent minimum wage floor may develop a "sleeper." There is little objection to fixing that level, but legislators are wary of a provision which would allow committees to study individual industries, recommend $1 minimum at any time.



Increasing . . . .

International Competition in Foreign Trade

By V. L. HOROTH

It is not news to the average American exporter that international competition is getting keener. For some time now, exporters of products ranging from coal and cotton to refrigerators and shirts have been finding themselves compelled to make an increased effort to sell abroad goods that had to be rationed only two years ago.

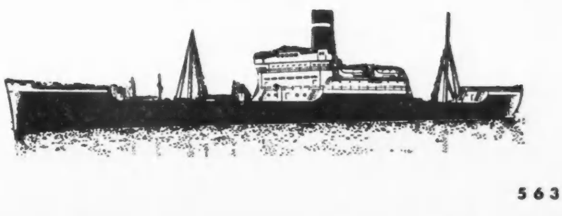
There cannot be any doubt that the United States got the cream of the postwar export market. We had the kind of goods the world needed after an exhausting war: foodstuffs, raw materials such as cotton, machinery and tools of all sorts. Moreover, we had these goods available at prices relatively lower than those of anybody else in the first postwar years. That made our goods doubly desirable, and that is why the world has used up so quickly the accumulated gold and dollars as well as dollar credits and grants.

During the last year and a half, the international shortage of gold and dollars, which has caused more and more countries to adopt import licensing, quotas, higher tariffs, foreign exchange budgeting, and finally flat prohibition of imports of certain goods from this country, seemingly has been the chief obstacle facing American exporters. Unquestionably our exports today would be much higher if Argentina, Brazil, South Africa, India, Chile, and a host of other countries had not exhausted their dollars.

We are still the leading source of specialized machinery, equipment, advanced chemicals and pharmaceuticals, and our prices for these products are still lower than those of our competitors. However, in all products — dollar shortage or no dollar shortage — the American exporter is being faced more and more with increased competition not only from other American exporters but from foreign countries as well. The main reason is, of course, that many more goods are available the world over. Slack in business in this country is releasing more textile goods, hardware, radios, electrical equipment and apparatus, dyestuffs, advanced chemicals, medicaments, certain machinery and tools, and also many processed foods for export to foreign countries at the very time when production abroad is getting into full swing.

Up to now, the main competition we had to face came from Great Britain, and to a lesser extent also from Italy, Switzerland, Sweden, and Belgium. But as will be seen, two important prewar competitors, Germany and Japan, are entering the field, and, driven by necessity, some of the satellite countries, Poland (coal), Czechoslovakia (machinery and railway equipment), and even Hungary, are getting more aggressive.

Moreover, as in the United States, consumption boom is losing force in many foreign countries. The



International Prices in Terms of U. S. Dollars (adjusted for currency changes)						
	(International Prices, 1937 = 100)				(American Prices = 100)	
	1937	1946	Latest	1948	1946	1948
United States (a)	100	151	191	Nov.	100	100
Great Britain (a)	100	164	205(e)	Nov.	109	107
Switzerland	100	200	212	Nov.	132	111
Sweden	100	163	206	Oct.	108	108
France	100	200(b)	211	Nov.	132	110
Netherlands	100	158	178	Oct.	105	93
Italy	100	160	202	Nov.	106	106
Canada	100	121	188	Nov.	80	98
Argentina	100	180	216	July	119	113
Peru	100	143	255	Nov.	95	134
Mexico	100	185	145	Nov.	122	76
Australia (a)	100	117	220	Oct.	77	115
South Africa	100	130	141	Oct.	86	74
Turkey (a)	100	197	180	Sept.	130	94

(a)—Export prices. (e)—Estimated.
(b)—December, 1946.
Source: International Financial Statistics (International Monetary Fund).

most urgent consumer demands appear to have been met. Goods are piling up in Cuba, Venezuela, Panama, and other Caribbean countries, and in Switzerland, Sweden, Belgium; even in Italy reduced volume of sales is being reported in more and more lines. Elsewhere, as in Brazil and Colombia, the rise in living costs has priced many people out of the market for many imported products, not necessarily of American origin. Similarly in Mexico, Chile, Peru, and other countries, imported goods are now beyond the reach of former customers, as a result of currency devaluation or multiple currency rate provisions.

Paradoxically, it is United States aid that perhaps more than anything else is contributing to the revival of competition in overseas markets. Not only are we paying for the modernization and the expansion of Western European industries, but we are seeing to it that German and Japanese industries recover sufficiently to enable them, by exporting, to make their respective economies self-sustaining. We have accepted the inevitability of increased international competition as the price of the maintenance of certain basic freedoms against the onslaught of red totalitarianism. However, our exporters are entitled to certain guarantees that the countries whose industries we are helping to modernize and expand, will not resort to unfair competition in international markets, such as price undercutting by means of special currency exchange rates. This is a subject that is already being discussed in Great Britain, and it will need threshing out even in this country.

Expansion of World Production

That our contributions to world recovery are bearing fruit is borne out by the latest report of the United Nations Economic Department which points out, among other things, that world industrial production has recovered since the last war nearly twice as fast as after the First World War, and that in the Fall of 1948 it was some 32 per cent higher than in 1937 and 11 per cent above 1947. The overall world production of factories, farms, and mines was estimated in the Fall of 1948 to be some 20 per cent above 1937 and almost 10 per cent above 1947.

The expansion of production has been accompanied by even faster expansion of world trade. As the reader will see from the first of the diagrams, the value of exports of nine leading Western European countries more than doubled in just about two years, from Fall of 1946 to Fall of 1948. The rise in the international price level contributed, of course, to this gain. On the other hand, *U. S. commercial exports* — other than Army relief shipments, UNRRA goods, but including ECA exports — were actually lower in November 1948 than they were in November 1946. The combined exports of Australia, Canada, New Zealand, and South Africa have shown, in contrast with our own exports, an almost uninterrupted rise, though far less spectacular than those of the Western European countries.

The expansion of Western European shipments must be attributed to some extent to the deliberate policy of producing for export. It is a well known fact that some of the products that Great Britain and France have been pushing in world markets are unavailable to their people at home. This is not only true about "semi-luxuries" such as passenger cars, refrigerators, and washing machines. The home markets are still starved for leather products, textiles, sewing machines, bicycles, and a long list of other products.

British Export Spurt

British exports climbed in 1948 to the equivalent of nearly $6.6 billion, a figure more than four times as large as in 1945, and the highest yet recorded. During the last quarter of 1948, they reached an annual rate of $7 billion, virtually hitting the year-end target of 150 per cent of the 1938 level.

Motor vehicle exports made one of the best showings. The number of motor vehicles exported increased fully 50 per cent above 1947, and Great Britain became the largest passenger car exporter.

British Exports (in millions of dollars)	1945	1946	1947	1948 (a)
Textile manufactures	400	744	900	1,300
Machinery	188	456	724	1,016
Vehicles, including aircraft and railway equipment	76	456	672	976
Iron and steel production, including cutlery	124	428	488	600
Chemicals, drugs, dyes	152	264	272	333
Electrical goods and apparatus	56	148	200	290
Total including others	1,596	3,648	4,792	6,592

American Commercial Exports (in millions of dollars)	1945	1946	1947	1948
Textile manufactures	502	731	1,375	800
Machinery	896	1,063	1,790	1,670
Vehicles, including aircraft and railway equipment	......	855	2,102	1,160
Iron and steel manufactures	457	477	825	620
Chemicals, drugs, dyes	413	500	783	745
Electrical goods and apparatus	294	304	563	470
Total including others	2,562	7,906	13,830	10,700

(a)—Partly estimated.

Britain sent abroad last year nearly 300,000 motor vehicles including 227,000 passenger cars, as compared with our exports of about 430,000 units including 210,000 passenger cars, although her total production of 510,000 passenger cars, buses, and trucks, is but a fraction of our own huge output (approximately 5,270,000 passenger cars, buses and trucks in 1948). The United States, now importing British automobiles at the annual rate of nearly 35,000, has become Britain's second best market. Other big markets were South Africa, Australia, Canada, and Belgium. The backlog of demand is reported to have been reduced in a good many countries, but apparently in Argentina, Brazil, Finland and Denmark, the demand continues strong.

The value of British exports of machinery, for which India, Australia, and South Africa are the leading markets, exceeded $1 billion in 1948, and, as will be seen from the accompanying table, compares quite favorably with our 1948 machinery exports. In textile and clothing exports, our loss was Britain's gain; at some $1,300 million, British textile exports exceeded American shipments by some $500 million in 1948. Although British exports to Latin America as a whole are only about one-fourth as large as ours, British shipments to Argentina exceeded (see chart) American exports for the first time since the war.

Yet despite these accomplishments, British exporters are worried. The 1949 target calls for exports of $7¾ to $8 billion (at present prices) in the face of mounting international competition. Moreover, the pent-up demand in South and West Africa is being satisfied, and if commodity prices should continue to decline, there may be less purchasing power. Similar developments are reported by French and Belgian exporters. The overseas possessions are no longer a dumping ground. More goods are available, and even the colonials are getting penny-wise.

German and Japanese Competition

What is, however, creating a real scare among exporters in the Western World is the industrial resurgence of Germany and Japan, and the possibility that the two countries may resort to "unfair" competition and flood the markets with their "cheap" goods. For example, the British automobile makers see a threat to their booming exports in the German "people's car" (Volkswagen), a handy little "job" which is apparently being delivered at about $1,000 f.o.b. in Switzerland. German competition is also expected to be strong in industrial chemicals, dyestuffs, precision instruments, Diesel engines, and capital goods of all sorts.

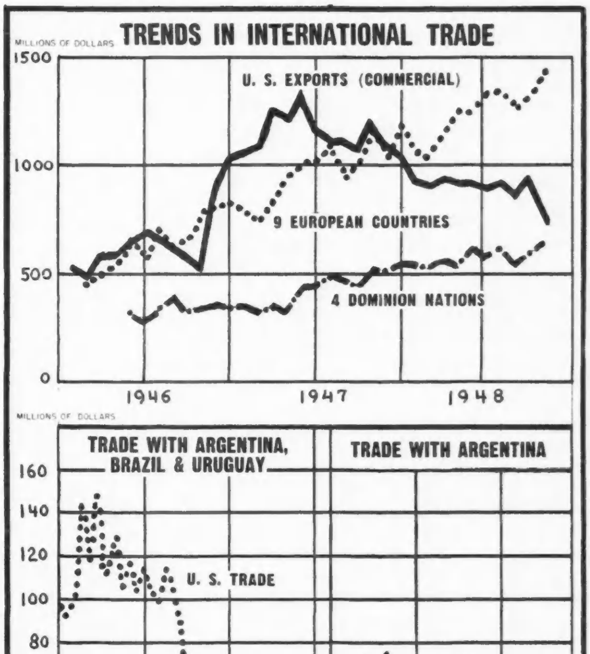
Compared with American or British exports, Bizonia's exports are still small, but they are expanding. They were but $60 million in 1947. Last year they increased to $450 million. Currently Germany is exporting at the rate of about $800 million a year; according to Mr. John W. Logan, Director General of JEIA, German exports should reach at least $1,000 million in 1949. German exports to Latin America are still at the annual rate of only about $10 million, but a sharp rise is anticipated, especially in the old German export lines: dyestuffs, hardware, cutlery, instruments, drugs, etc. More than half of the overall German exports up to now have been accounted for strangely enough, by raw materials: coal and steel scrap.

Japan's competition is likely to be felt most in the markets of Southeastern Asia, principally in the textile field, chinaware, hardware, paints, bicycles, textile machinery, and the inevitable "notions." Japanese exports were apparently moving last Fall at the annual rate of about $350 million — or only about one-fourth as much as before the war, if adjusted for price differentials.

Complaints About Low-Priced Exports

There is considerable "hollering" about Japanese exports of low-priced textiles, bicycles, chinaware, etc. British and American textile manufacturers are already girding themselves to combat the competition of Japanese cheap goods not only in foreign but in domestic markets as well. But both Germany and Japan must live — and must become self-sustaining some day. As the London Economist puts it, "to object to German (and Japanese) competition is an obvious waste of time. More useful would be a serious attempt, supported by detailed price comparisons and if possible by information about costs, to demonstrate whether there is, in fact, any German (Japanese) competition at present of a kind which deserves the names of price-cutting, or dumping, or indeed any name except legitimate trade."

The loss of price advantage has also been a factor contributing to tougher going in international markets. The two and a half years of steady price-wage spiraling in this country have not been without effect. Some lines, such as textiles and clothing, have suffered from the (*Please turn to page* 595)



Which Increased Dividends Likely To Continue in 1949?

By PHILLIP DOBBS

Now that the gloss of the postwar boom has started to fade and a large crop of uncertainties has appeared, the element of dividend stability is commanding heightened attention in appraising share values. Of special significance have become those concerns that for one reason or another have started the year with increased dividend liberality. Such policies invite study as to their potential permanency or possible temporary character, in view of the status and outlook for different industries and their individual components.

Examination of this subject is timely, in that current yields are commonly based on 1948 dividends. This tends to distort the picture in many cases where payments this year are likely to continue at an advanced rate or be supplemented by extras. No assurance of course is provided in any instance, for future dividend action is obviously unpredictable. A mere wide spread between reported net earnings and dividends paid is also an unreliable guide to what shareholders may expect to receive. Witness the recent action of Creole Petroleum Corporation in reducing quarterly payments to 75 cents per share compared with 90 cents in 1948, despite highly satisfactory 1948 profits estimated around $8 a share. Expanding inventories, the weakening price structure for petroleum products and further substantial capital requirements accounted for this change in dividend policy.

On the other hand, the mere fact that directors of a given concern have raised dividends or declared extras early in 1949 assuredly points to management confidence in the outlook, at least so far as their own affairs are involved. Such factors as completion of postwar expansion programs, the prospect of well sustained volume, competitive advantages and improved cost controls are seemingly reflected by increased liberality to shareholders despite awareness of the general problems and the possibility of higher taxes facing corporate business in the year ahead.

In the accompanying tables we are listing a number of concerns which have declared larger dividends so far this year, or extras. While the latter course is less convincing in its implications, it is merely a more conservative method of reaching the same goal. Should conditions later in the year become discouraging, rates could of course be reduced at the discretion of directors or extras omitted. But to study the underlying reasons for increased liberality already expressed, it is necessary to examine the companies one by one. Within the limitations of space, we will proceed on this basis with brief comments.

General Motors

Almost nine months ago, General Motors announced its intention to disburse dividends more closely in line with the prewar pattern of 85.7% of earnings. During both 1947 and 1948 only approximately 48% of net profits were distributed, although expanding earnings increased per share dividends last year. Payment of a year-end $2 extra in 1948 lifted total dividends for that year to $4.50 per share. GM pays no regular rate but advanced its August declaration from 75 cents to $1. A further boost to $1.25 in January should, it is generally believed, represent a minimum quarterly payment for the year, with chances of later improvement if warranted, or a possible year-end extra. If payments during 1949 total only $5 per share, though, the stock at a recent price around 59 would provide a yield of 8.8%.

Current conditions as to supply and demand for General Motors' popular cars, diesels and other products, point to possibly high record sales and earnings in 1949. Wage contracts have another year to run and steel supplies have increased. The company's vast postwar modernization program has been virtually completed, plenty of workers are available and, barring the unforeseen, net earnings should at least equal the $9.25 per share estimated for 1948. With ample working capital and a relatively fast turnover, there seems to be no reason why GM dividends this year

Companies Which Increased Their Dividends in 1949

	Net Per Share 1947	Net Per Share Est. 1948	Dividends Per Share 1947	Dividends Per Share 1948	1949 Increase From	1949 Increase To	Div. Yield†	Recent Price	Range 1948-49
American Chain & Cable	$ 3.65	$ 4.75	$1.40	$2.00	$ .35 Q	$ .40 Q	9.5%	$21	$27 -18¾
American Smelting & Ref.	12.65	11.75	5.00 b	5.50	.50 I	.75 I	11.0	50	68 -46¾
Archer-Daniels-Midland	9.59	7.55 A	1.25	2.00	.25 I	.50 I	7.1	28	34¾-24
Armco Steel	7.44	7.25	2.00	2.00 b	.50 I	.62½ I	8.3	24	32½-23⅝
Burroughs Adding Mach.	1.36	2.90	.75	.75	.15 Q	.20 Q	5.3	14	17¾-12½
Chrysler	7.72 a	9.50	2.87 a	4.00	1.00 Q	1.25 Q	7.7	52	65¾-50⅝
General Motors	6.25	9.25	3.00	4.50	.75 I	1.25 I	7.6	59	66 -50½
Johnson & Johnson	4.64	6.65	.25 ab	.80 b	.20 Q	.25 Q	2.5	32	36 -20¾
Libbey-Owens-Ford	4.38	5.56	3.00	3.50	.50 Q	.75 Q	7.3	48	56½-43½
McGraw Electric	5.49	6.00	3.50	3.50	.50 Q	.75 Q	10.3	34	42¾-29
National Tea	5.45	5.25	1.25	1.87½	.37½ Q	.50 Q	8.1	23	30⅜-21
U. S. Pipe & Foundry	6.02	7.50	1.60	2.80	.70 Q	.75 Q	6.4	45	53¼-39½
Youngstown Sheet & Tube	13.31	16.50	4.00	5.00	1.00 Q	1.25 Q	7.4	67	89⅜-65½

A—Actual.
a—Adjusted.
b—Plus stock.
Q—Quarterly.
I—Irregularly, usually every three months.
†—Based on 1948 dividends.

should not continue to be more liberal than a year earlier, perhaps on an increasing scale as the year nears its end.

The 3 for 1 stock split recently proposed by United States Steel Corporation, together with declaration of a $1 special on top of the regular $1.25 common dividend in January on the old shares gives rise to the belief that annual dividends on the new stock may total at least $2 per share. This would equal $6 per share on the old stock in contrast to $5 paid in 1948. If 1948 earnings of $11.99 per share, after liberal allowances for special reserves, are anywhere nearly equalled in the current year, Big Steel certainly could afford to pass half along to shareholders. As the equities carry no fixed dividend rate, uncertainty over quarterly payments will persist although second quarter dividends may give a clue. True, this giant concern must provide funds for large expansion programs during 1949, but an impregnable financial position should ease problems in this respect. Furthermore the company recently reported backlog orders equal to more than four months' business, and that prospects of any substantial decline during 1949 were very slim. Steel demand has slackened in some directions but the gap is amply filled by other customers still on an allocation basis for sheets, pipe, bars and plates. Thus no reduction in steel prices is likely, and with continued large volume the company's profit margins should remain satisfactory. All said, prospects for U. S. Steel encourage expectations that dividends will remain at a new higher level, at least through the current year.

Setting an Example

All speculation over the dividend continuity of U. S. Pipe & Foundry Company has been eliminated by the action of this company in declaring dividends in advance for the entire year. Payments in each quarter will be at the newly established rate of 75 cents per share, 5 cents (*Please turn to page* 596)

Companies Which Have Declared Extras in 1949

	Net Per Share 1947	Net Per Share Est. 1948	Divs. Per Share 1947	Divs. Per Share 1948	1949 Divs. To Date Reg.	1949 Divs. To Date Extra	Div. Yield†	Recent Price	Range 1948-49
American Seating	$2.52	$5.50	$1.00	$2.00	$ .25	$ .25 b	8.3%	$24	$28 -16½
American Tobacco	5.70	7.00	3.50	3.75	.75	1.00	6.0	64	69¾-54¼
Belding Heminway	4.00	4.50	.90	1.15	.30	.20	7.7	15	20⅞-14⅛
General Foods	3.19	4.50	2.00	2.00	.50	.25	5.0	40	42⅞-34
Green, H. L.	4.76	5.00	2.37½ a	2.50	.50	.50	6.9	36	40⅞-29½
Ohio Oil	4.44	8.00	1.75	2.30	.25	.25	8.8	26	43 -26⅜
Pure Oil	4.77	9.00	1.50	2.00	.25	.25	7.7	26	42 -25⅛
Standard Oil of Kentucky	3.63	5.00	2.00	2.65	.35	.15	8.8	30	30⅜-25¼
Union Bag & Paper	7.93	9.25	3.00	4.00	.50	.25	14.3	28	39⅞-27⅝
U. S. Playing Cards	4.65	6.00	3.50	4.50	1.00	2.50	7.6	59	59½-49
U. S. Steel	11.71	11.99 A	5.00	5.00	1.25	1.00	7.0	71	87⅝-67⅜
Young Spring & Wire	3.52	7.41 A	1.00	1.50	.25	.25	8.3	18	24 -15¾

b—Plus stock.
A—Actual.
a—Adjusted.
†—Based on 1948 dividends.

Investment Audit of STANDARD BRANDS

By GEORGE W. MATHIS

Transition from wartime scarcities to an economy of abundance poses numerous hazards for business men. Nowhere are such problems more troublesome at the moment than in the food industry. Wide price fluctuations in farm products present threats of inventory losses as well as of dislocations in competitive markets. While the downward course of raw materials holds out promise of lower costs and eventual stability — chief ingredients of successful operations in food processing — the immediate effect on profit margins is unfavorable.

An investment appraisal of a company such as Standard Brands, Inc., nationally known processor of grocery products, involves a study of commodity price trends, consumer purchasing power, distribution costs and advertising policies. Ordinarily the business of preparing food products for retail consumption, when conducted in large volume, is a stable, profitable operation. Abnormal fluctuations in raw materials, however, can mean occasional windfalls or serious losses. Good management is required to guard against unusual disturbances. Adjustments incident to a return to peacetime conditions have presented problems for Standard Brands and other food concerns that have not been altogether happy.

Standard Brands, formed at the tag end of the financial boom of the 1920s, when consolidations were the order of the day, is a curious combination of industrial operations, and perhaps a seeming lack of homogeneity explains contradictory management policies in recent years. The company was organized in 1929 to consolidate the Fleischmann Company, the Royal Baking Powder Co., and E. W. Gillett Co., Ltd. Fleischmann is a major producer of yeast and also produces whiskey, gin, white vinegar, malt syrups and gelatin desserts as well as serving as distributor for Scotch whiskey and rum. The Chase & Sanborn division, acquired about the same time, is one of the leading coffee importers and roasters in the country. This unit also handles Royal products, including baking powder and puddings, together with tea. Oleomargarine, salad dressings and sandwich spreads are prepared by another division.

Distribution Problems

Although these products represent a highly diversified line, it is generally believed that distribution of individual products is not as well balanced as might be desired and profit margins in some items have been difficult to maintain under highly competitive conditions. Six or eight years ago, management embarked upon a program of expansion which appeared to envision introduction of additional food products, particularly canned goods, which might be distributed through the company's nationwide delivery service. It was hoped that enlargement of volume would counteract rising labor costs. This step encountered difficulties, however, partly as a result of scarcities of raw materials and containers and partly because of rapidly rising costs in maintaining a huge delivery system.

During the war a new type of yeast was developed — called fast rising dry yeast — which obviated the necessity of frequent deliveries. When this product superseded the moist perishable yeast after the war, the extensive system of wagon routes on which distribution of grocery lines had been founded was doomed. Within the last year or so, all but a small part of the vast system of delivery routes has been discontinued. Customers are being served through wholesale channels and by means of direct shipments by express or parcel post.

Decision to make this major adjustment probably contributed to other changes in products. About a year ago, for example, Chase and Sanborn introduced "instant coffee" which is susceptible to economies in distribution and discontinued several coffee roasting plants. Concentration of coffee preparation and packaging in fewer locations was made possible by substitution of vacuum type cans for paper bags. Early last year management also decided to withdraw from the business of vegetable canning and as a result disposed of a part of the Loudon Manufacturing division's products to Campbell Soup Company under an arrangement termed by the management as "favorable."

Commenting on this move, Mr. Joel S. Mitchell, president, told stockholders at the annual meeting

last year that it was a type of business not entirely suited to Standard Brands' operations. He said: "While operations of this business for the past five years have been successful, it is a specialty item (V-8 vegetable juice) involving highly seasonal canning operations. It became clear to us that in order to achieve low costs, we would have to supplement the V-8 business and produce and sell a line of canned goods. Rather than undertake a considerable capital investment to widen and diversify our operations in the canning business, your management felt that it was in the best interests of Standard Brands to dispose of the V-8 business, especially since we had an opportunity to consummate a sale on terms favorable to us.

"Expansion in a business during a high-cost era is more hazardous than in normal times, and then we still would have the problem of developing a secure market franchise for new products. This sale released a substantial amount of working capital which we feel can be used more advantageously in other divisions of our business. It is believed that the long-term results will be favorable and will permit a reduction in fixed expenses; a more efficient alignment of our manpower and facilities; and a transfer of effort to the promotion of other product lines which give better promise for the future."

Comparative Balance Sheet Items

ASSETS	December 31, 1940	1947 (000 omitted)	Change
Cash	$17,829	$ 13,983	—$ 3,846
Marketable Securities	1,087	....	— 1,087
Receivables, Net	5,311	18,806	+ 13,495
Inventories	23,112	67,490	+ 44,378
TOTAL CURRENT ASSETS	47,339	100,279	+ 52,940
Plant and Equipment, Net	27,029	25,454	— 1,575
Other Assets	5,216	8,867	+ 3,651
TOTAL ASSETS	$79,584	$134,600	+$55,016
LIABILITIES			
Accounts Payable	$ 2,943	$ 8,362	+$ 5,419
Accrued Taxes	2,918	5,196	+ 2,278
Other Current Liabilities	1,160	18,900	+ 17,740
TOTAL CURRENT LIABILITIES	7,021	32,458	+ 25,437
Reserves	570	580	+ 10
Preferred Stock	20,000	22,000	+ 2,000
Common Stock	25,296	25,396	+ 100
Surplus	26,642	54,166	+ 27,524
TOTAL LIABILITIES	$79,584	$134,600	+$55,016
WORKING CAPITAL	$40,318	$ 67,821	+$27,503
CURRENT RATIO	6.7	3.1	— 3.6

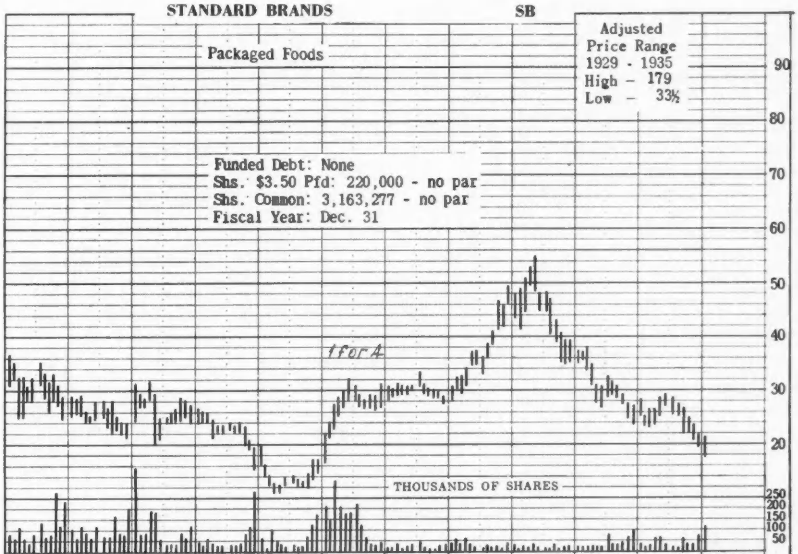
Drawbacks of Specialization

This comment gives recognition to vital problems encountered in the conduct of a highly competitive business. It frankly points to the need for avoiding lines that require specialization. Similar considerations accounted for withdrawal from production and distribution of a wide line of pharmaceutical products. Standard Brands had taken up production of vitamins when popular fancy made the business profitable about a decade ago. But as output increased and profit margins faded, Standard Brands discontinued its lines and in 1946 sold all assets of its subsidiary Strong Cobb and Co., which had been acquired in 1943 at a time when the vitamin business looked promising. This concern was engaged in manufacture of pharmaceutical products for the wholesale and retail trade, but elimination of vitamins in 1944 considerably lessened importance of this subsidiary. Although the company continues to produce yeast derivatives and other special products for bulk sale to the pharmaceutical trade, earlier plans of enlarging pharmaceuticals have been dropped.

The Fleischmann Division

Retrenchment in highly competitive activities is expected to effect economies so as to permit greater effort in profitable undertakings. As an example, management feels confident of maintaining its position in production and distribution of yeast and byproducts without the necessity of supporting an expensive distribution system. Savings in the change of merchandising methods are expected to approximate as much as $3 million annually. More intensive efforts in distribution of Fleischmann's distilled products also are expected to yield better results.

Through its Fleischmann division, Standard Brands is regarded as the largest producer of yeast, accounting for more than half of the country's output. Demand originates from 50,000 or more bakeries, restaurants, hotels, hospitals and other institutions in all parts of the country. Baking powder also is distributed in similar channels, and these items represent the backbone of the company's earnings. Sales are noted for their stability and tend to follow closely the trend of volume in bread baking.



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	2.47	2.04	2.72	2.17	2.00	2.63	2.59	2.74	4.11	2.32		
DIV.	2.50	1.90	1.60	2.00	.40	1.20	1.00	1.50	1.80	2.00	2.00	
Wkg Cap $ Mil	42.1	42.4	40.3	41.8	44.9	44.8	51.8	63.8	66.4	67.8		

Other products are more vulnerable to competition and to shifting consumer preferences. Oleomargarine sales have been well maintained and are believed to have contributed importantly to successful results in its division. This item promises to continue to give a good account of itself so long as vegetable oils and other ingredients are available at prices to permit a distinct price advantage as compared with natural butter. Return of keener competition has presented the prospect of narrower margins for puddings, gelatin desserts, salad dressings, cheese products, etc. More aggressive promotional effort seems necessary to sustain a large volume of such lines.

Chase & Sanborn

Profit margins in coffee have been difficult to maintain because of high costs of the coffee bean in Brazil and other Latin American countries. Consumer resistance is encountered when increased costs necessitate a retail selling price in the area of 55 to 65 cents a pound. Vacuum packed premium brands, such as Chase & Sanborn offers, suffer from competition by large chain store distributors who are able to merchandise the product in less costly paper bags. Moreover, in the case of Standard Brands, promotional expenses incident to introduction of the powdered concentrate, instant coffee, added to difficulties of maintaining satisfactory profits in the coffee division. In like manner, competition from lower priced blends no doubt was encountered in distribution of Tender Leaf tea.

Barley malt, malt syrup and other products processed from grain ordinarily contribute satisfactory profits. Sales to the brewing industry normally are stable and are developed at comparatively low cost, but price fluctuations last year accounted in part for disappointing results in the last six months. A price decline last summer in barley was particularly disturbing, since the company was faced with the necessity of taking inventory losses on grain in process. In other words, management felt it prudent to adjust prices of distilled products downward in line with the decline in raw materials as a matter of good business. The fact that no provision had been made for barley in the legislation authorizing government price supports may have been a factor in depressing prices to a greater extent than otherwise would have been the case. Management is hopeful that government supports for barley may be made available this year.

Importance of price stability in raw materials, as well as in distribution costs, can scarcely be stressed too much in appraising prospects for a company such as this which depends for its profits on narrow margins and large sales volume. Extraordinary expenses or sudden unpreventable losses in inventory values while materials are in process, can play havoc with profits.

Standard Brands has the advantage, however, of of having a well-entrenched, nationally accepted food product that accounts for a high proportion of sales — yeast. Distribution costs of this line are being reduced and sales expense presumably is relatively low in relation to selling prices. Costs of materials in ordinary times can be very well controlled. Hence, this division appears to offer the hope of a strong nucleus with which to assure stability.

Realistic Product Policies

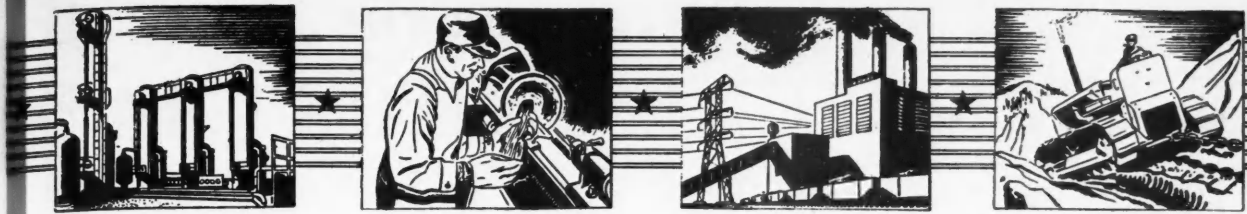
Management appears determined to examine potentialities of other products realistically and to eliminate lines which appear to offer little prospect of development without too great expenditures. With benefit of economies still being effected, earnings results this year should be more satisfactory. Although a decline in dollar sales from last year's estimated record total of $285 million would not be particularly surprising, especially if downward trends in farm products continue, nevertheless, profit margins should show signs of betterment.

It is too early of course to hazard a worthwhile estimate on probable 1949 earnings, but the recent action of directors in reducing the quarterly dividend from 50 cents to 30 cents a share may suggest what management's viewpoint on earnings may be. It seems unreasonable to think that price inflation is likely to contribute importantly to any further rise in sales volume. The fact that business last year show an increase of only about 2 per cent in dollar volume, compared with (*Please turn to page* 595)

Long Term Operating and Earnings Record*

	Net Sales	Operating Income	Operating Margin	Depreciation	Net Income	Net Profit Margin	Net Per Share	Dividends Per Share	Price Range
	—$ million—		—%—	—$ million—		—%—			
1948 (9 months)	$214.0	......	......	......	$5.8	2.7%	$1.65	$2.00 a	29½-19⅝ a
1947	276.1	$10.0	3.6%	$2.7	8.1	2.9	2.32	2.00	37½-26½
1946	252.5	19.1	7.6	2.3	13.9	5.3	4.18	1.80	55 -34⅜
1945	259.8	23.1	8.9	2.5	9.6	3.7	2.74	1.50	49½-28
1944	237.0	20.9	8.8	2.4	9.1	3.8	2.59	1.00	33¾-27¾
1943	182.3	21.8	12.0	2.2	9.2	5.1	2.63	.80	32 -16½
1942	144.4	15.7	10.9	1.9	7.2	5.0	2.00	.40	20 -11
1941	119.6	12.7	10.6	1.8	7.8	6.5	2.17	2.00	26½-15
1940	98.9	11.5	11.6	1.6	9.5	9.6	2.72	1.60	31½-20
1939	108.8	9.4	8.6	1.8	7.4	6.8	2.04	1.90	29 -21½
1938	108.3	10.2	9.4	1.7	8.7	8.1	2.47	2.50	37 -24½
10 Year Average, 1938-47	$178.8	$15.4	9.2%	$2.1	$9.1	5.7%	$2.58	$1.55	55 -11
4 Year Average, 1938-41	$108.9	$10.9	10.0%	$1.7	$8.3	7.7%	$2.35	$2.00	37 -15

*—Figures adjusted for changes in capitalization.
E—Estimated.
a—Full year.



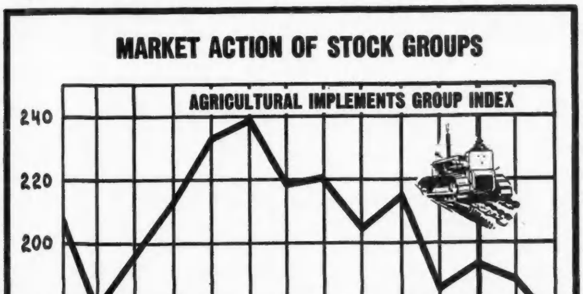
1949 Special Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Electrical Companies, Rail Equipment and Farm Equipment Shares

Part II

American business enters the fourth full postwar year with the conviction that 1949 will be a year of major readjustment. Though the nation's basic economic health is good, we are witnessing many conflicting trends and forces that are beclouding the outlook. Generally in the past few months, business has shown signs of slackening in many directions and the cracks that are showing in our inflated price structure are likely to deepen some more before it will stabilize on a new plateau. Overall, the trend is towards more normal relationships in free competitive markets.



As it is, not only are we in the midst of transition from postwar boom to some level of readjustment, but we are also in transition to a new phase of the cold war, involving enormous Government spending both at home and abroad. Additionally, we seem in transition to a new phase of economic planning with increased emphasis on social benefits, on more Government guidance of industry, and the prospect of new tax burdens. All of which is bound to affect vitally the future of business generally and the outlook for specific industries and companies.

To assist our readers in arriving at sound investment decisions under changing conditions, The Magazine of Wall Street presents its Security Reappraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of latest information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks — the last column in the tables preceding our comments — is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1 — Upward; 2 — Steady; 3 — Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

. . . . WHAT'S AHEAD FOR THE . . . .

ELECTRICAL INDUSTRY?

By STANLEY DEVLIN

Considerable discrimination has become essential in appraising 1949 prospects for manufacturers of electrical equipment. On an over-all basis, continued prosperity seems indicated, but the supply in most lines has become more than abundant, thus signalling the advent of an intensified competitive period. In other divisions, especially heavy generating equipment, the relatively few qualified producers foresee no diminuition in volume for a year or so. As for producers of innumerable lighter goods in the electrical field, the inevitable cycle of readjustment colors the outlook.

Barring the appearance of a serious recession, consumer demand for electric appliances of every description, from refrigerators, ranges, washers, vacuum cleaners and fans to hair curlers should remain at a level far above prewar. Demand for some of these products, to be sure, tapered off in 1948 and may recede further. But such a trend chiefly marks the end of an abnormal buying interval induced by the postwar spending spree.

Chances are slim that sales of electrical appliances in the current year will equal the record $2.6 billion estimated for 1948, despite greatly stepped up promotional activities, but they could decline quite substantially without serious effect upon the strongest units in the group. So confident are some of these as to trade demand for their firmly established brands, that plans have been announced to expand production of certain items that competitors find great difficulty in moving.

But difficulties may come to many enterprises which until recently have been able to sell everything they could produce, regardless of their weakness in established trade connections. Some in this category, including marginal concerns, newcomers and diversifiers are certain to experience trouble from high break-even points if volume trends down more. The appearance of distress merchandise at reduced prices may compound their problems in markets they have formerly exploited, where price rather than reputation has been the determinant factor. With little prospect that prices for steel and non-ferrous metals will recede much in the current year, or that wage costs will diminish, a rather severe test is facing many of these concerns. Emphasis upon increased sales activities will add to cost dilemmas and can hardly be as effective as with their stronger competitors.

Fundamental Outlook Varies

On the brighter side of the picture is well warranted confidence that numerous favorably situated concerns in the industry enjoy encouraging potentials in 1949. In appraising these, analysis discloses that large size alone is no indication of a superior position. Indubitably, giant concerns such as General Electric Company and Westinghouse Electric through sheer weight and broad product diversification should enjoy another prosperous year. The list of smaller and more specialized producers, on the other hand, which can be counted upon to make a satisfactory showing is impressive, although their progress is apt to reveal variations. While some of these companies may experience only minor volume declines, high costs and pricing problems will present handicaps that could lead to somewhat lower net earnings, especially if the tax rate is lifted. The test for investors, accordingly, (*Please turn to page* 000)

Position of Leading Electrical Equipment Companies

	Net Per Share 1948	1947	Div. 1948	Div. Yield	Price-Earnings Ratio†	Recent Price	Range 1948-49	Invest-ment Rating	COMMENTS
Apex Electrical	$6.00 E	$5.20	$ .80	11.4%	1.2	$7	12⅜- 7	C3	Declining sales of washers and ironers causing production cuts and reduced prices, but wide earnings-dividend ratio points to stable payments, recently lifted to 25 cents quarterly.
Black & Decker	7.30	5.32	3.00	10.7	3.8	28	36¼-26¼	C+2	Strongly entrenched producer of portable electric tools. Sizeable backlog enhances 1949 outlook. Continued payment of occasional extras probable.
Carrier Corp.	4.19	3.44	.25	1.9	3.1	13	19¾-12⅛	C+3	Leading producer of air equipment. Improved facilities and strong demand favor prospects in current year. Small dividend widely earned.
Cornell-Dubilier	.84	1.87	.80	8.0	11.9	10	15½- 9¼	C+1	Expanding activities in television may offset last year's sharp downtrend in volume and earnings. Dividend probably will not change.
Cutler-Hammer	4.75 E	4.82	2.00	9.1	4.6	22	31¾-21¼	C+3	Reduced backlog and dip in volume foreshadow lower earnings in 1949. Strong finances, though, should support conservative dividend.
Emerson Electric	3.02	2.89	1.00	8.3	4.0	12	20⅛-12½	C+1	A large backlog of $47 million, mostly of military origin, assures full scale operations in 1949. Earnings likely to improve and dividends amply secure.
Eureka-Williams	.33	2.05	.12	3.0	12.1	4	9 - 4	C1	Relief from fuel oil shortage likely to bring improvement to volume and 1949 earnings from burner equipment, though vacuum cleaner sales may decline. But resumption of modest dividend uncertain.
General Electric X	4.25 E	3.30	1.70	4.6	8.7	37	43 -31¾	A2	Well maintained over-all demand for diversified products should hold 1949 volume close to last year's, despite decline in some lines. Dividends at increased 50 cents quarterly rate should not vary.
Master Electric	3.75 E	5.38	2.40	15.0	4.3	16	27¼-15¾	B3	Substantial increase in motor supplies suggests lower sales and a possible further earnings decline, though longer term growth potentials are not impaired. Dividend recently reduced from 60c to 25c quarterly.
Maytag	4.50 E	3.78	1.25	13.9	2.0	9	12½- 8¾	C3	1948 record year in washing machine sales not likely to be equalled in 1949, though company will introduce promising new line. Conservative 25 cents dividend safe and occasional extras will probably be paid.
McGraw Electric X	7.00 E	5.49	3.50	10.3	4.9	34	42¾-29	B2	Exceptional demand for toasters, fuses and hot water heaters, backed by a strong trade position, enhances 1949 prospects. Recently increased 75 cents quarterly dividend secure and year-end extra probable.
Noma Electric	4.39	.57	1.47	13.4	2.5	11	18⅛-10⅜	C2	Competition and lower prices likely to pinch margins. Substitution of 3% stock dividend in place of cash indicates policy to strengthen working capital.
Servel	3.00	1.20	1.00	10.0	3.3	10	14¾- 9½	C+3	Reduced volume and earnings probable in current year but promotion of additional lines an offsetting factor. Dividends should at least equal 80 cents per share.
Square D X	3.25 E	3.07	1.30	8.7	4.6	15	23⅞-14⅝	B1	An increasing backlog despite expanding production brightens outlook. Sales and earnings may continue to rise. 25 cents quarterly dividend assured and an extra may be in store.
Sunbeam	10.65	6.37	2.50	6.6	3.6	38	41 -27⅛	B2	Record earnings achieved last year should continue well into current year. Expanded facilities and well maintained demand lend encouragement. A year-end extra quite possible.
Sylvania Electric	2.75 E	2.10	1.40	7.0	7.3	20	26 -17⅛	B1	Volume and earnings likely to gain during 1949, aided by expanded facilities, operating economies and steady demand, especially for television tubes. Confidence in dividend stability warranted.
Westinghouse Electric X	3.25 E	3.59	1.25	5.2	7.4	24	33¼-23½	A2	Lower demand for household appliances should be offset by large orders for heavy equipment, Government business and strong competitive position. 25 cents quarterly dividend well supported by earnings coverage.
Weston Electrical Instr.	3.25	4.54	2.00	8.3	7.4	24	40¾-23⅜	B2	Specialist of wide repute as producer of instruments for many kinds of industries and the Armed Forces. Outlook for 1949 satisfactory. Dividend probably will not change.
York Corp.	3.00	2.18	.50	4.5	3.7	11	16½-10½	C+3	Important producer of refrigerating and air-conditioning equipment. Production slightly reduced pending clarification of demand. Moderate 25 cents semi-annual dividend seems safe.

E—Estimated.

†—Based on 1948 actual or estimated earnings.

★ ★ ★

RAIL Equipments

EARNINGS vs. SALES

By H. F. TRAVIS

Leading producers of rail equipment enjoyed an exceptionally good year in 1948, with sales establishing new peaks in many instances and net earnings for the most part indicating substantial improvement over the previous twelve months. Margins generally were pinched by high operating costs, however, emphasizing the need for continued high level activities in the current year to maintain profits. Whether hopes for well sustained volume in 1949 will materialize hinges on the purchasing policies of the railroads, a factor often difficult to appraise, especially in the light of current economic uncertainties.

At the beginning of the year, most divisions in the industry had big enough order backlogs to assure large scale operations for about six months, while some favorably situated specialists seemed certain of well maintained volume throughout the year. But one reason the entire group had such a satisfactory year in 1948 was the combined advantage of stepped-up operations and heavy backlogs. In recent months shipments have exceeded incoming orders, especially as regards passenger and freight cars, thus tending to whittle down unfilled orders. Some doubt exists as to the rate new orders can be expected to flow in during the near term, despite the obvious need of the railroads for large quantities of new rolling stock.

The railroads have always been prone to defer order placements for new equipment, except in periods when all signs indicate an uptrend in economic activity or at least stability on a high plateau. This is natural because traffic declines with business activity and if so, the roads can easily get along with rolling stock on hand rather than increase their investments. Thus during near term months, until some of the uncertainties on the horizon are dispelled, the railroads may become more cautious in proceeding with their ambitious postwar improvement programs. In this event, though, they will be sharply prodded by the Office of Defense Transportation. Much will also depend upon the ICC's final decision as to the requested 15% permanent freight rate increase as a substitute for the interim 6% raise recently allowed. Ability to pay for new equipment will of course be a prime factor.

Since the outlook for manufacturers of railroad cars, locomotives and special equipment varies considerably, we will discuss these divisions individually. According to the Association of American Railroads, the Class I roads placed in service last year 102,737 new *freight cars* and deliveries to other roads brought the grand total to 112,634 units. This beat all records since 1924. More significantly, acquisitions by the Class I roads exceeded retirements by about 21,000 cars in 1948 compared with a minus quantity of 8000 in 1947. Further importance is added by the fact that new cars are bigger and faster than the old ones, thus enhancing freight carrying potentials, not to mention a reverse effect upon operating costs. Considering the fact that about a third of all freight cars in service are still more than 25 years of age and that retirements in 1948 rose to 81,659 compared with 71,331 in 1947, it seems clear that expediency alone should hold order placements at a high level for an indeterminate period.

Caution in New Railroad Orders

During recent months, on the other hand, car manufacturers have been disappointed by a downtrend in new orders. Orders during January totaled only 1,568 freight cars, of which 175 went to railroad shops and 1,000 to one car builder for "standard models." In December, orders aggregated 8,368 compared with deliveries of 9,967. As of February 1, accordingly, deliveries of 8,913 cars in the previous month cut backlog orders down significantly, the total falling to 96,214 compared with 119,711 a year earlier and a peak of 134,676 on May 1, 1948. Moreover, an increasing proportion of new car orders seems to be allotted to the railroads' own shops, as evidenced by the fact that 36,230 fell into this category as of February 1, compared with 59,984 units ordered from car builders.

It looks as if the railroads have become increasingly economy-conscious of late, a surmise supported by reports that they are currently rebuilding many

of their outmoded freight cars. The lag in January orders, however, is hardly likely to continue on a similar scale during following months, now that the railroads have been given temporary relief through increased rates. Both the Association of American Railroads and the Office of Defense Transportation are pressing the railroads hard to step up their orders. The AAR considers it advisable for the roads to place immedate orders for 60,000 gondola cars and 50,000 boxcars.

ODT is getting increasingly tough in its demands, claiming that the railroads must increase their car orders to 12,000 per month from the 10,000 level planned for last year, a volume which was achieved in only two periods. This agency cites the railroads as agreeing that fully 2 million new cars will be needed on a long range program and that their claims for higher freight rates have been partially based on need of funds to finance the purchase of ample quantities. One road has even protested the allocation of steel under the 10,000 car per month program despite cancelling of its car orders. The ODT now threatens to refuse additional allocations for steel unless the rail- (*Please turn to page* 592)

Position of Leading Rail Equipment Companies

	Order Backlog* ($ mill.)	Net Per Share Est. 1948	Net Per Share 1947	Div. 1948	Div. Yield	Price-Earnings Ratio†	Recent Price	Range 1948-49	Investment Rating	COMMENTS
American Brake Shoe	$33.9	$4.00	$4.11	$2.50	7.4%	8.5	$34	43⅝-31⅝	B2	Earnings stabilized by replacement demand. Unbroken dividend record since 1902 lends investment appeal. Current rate seems safe.
American Car & Foundry X	215.0	6.50	3.47	3.00	10.0	4.6	30	49⅛-28½	C+1	Outlook enhanced by large backlog and broad demand for diversified output. Dividend well covered by earnings but no higher rate probable.
American Locomotive	116.0	2.50	1.70	1.40	8.2	6.8	17	26¾-16½	C+2	Indicated prolonged demand for diesels promises to maintain volume and earnings at satisfactory level. Dividend policies should remain conservative.
Baldwin Locomotive	100.0	1.35	1.33	1.00	9.1	8.1	11	17¼-11⅛	B2	Sizeable backlog orders point to stable operations in coming months. Recent association with Westinghouse Electric may prove constructive. No change in dividend anticipated.
General Amer. Transp. X	......	5.75	6.60	3.25	7.4	7.6	44	63½-42	B2	Car fleet operator as well as car builder. Higher rental rates should offset easing of freight car shortage. Stable earnings have created long dividend record.
Budd Co.	150.9	2.75	.97	.45	5.6	2.9	8	11⅞- 7⅞	C+1	Manufactures both stainless steel coaches and automobile bodies. 1949 prospects good. Satisfactory cost controls expanding earnings. Small dividend secure and may improve.
General Railway Signal X	......	2.50	1.41	2.00	10.5	7.6	19	29 -18½	B2	Steady volume indicated by ICC ruling that sustains demand for company's specialties. Improved operating efficiency suggests steady earnings and liberal dividends.
Lima-Hamilton	83.0	1.60	1.40	.63	7.0	5.6	9	13⅝- 8¾	B2	Produces both steam and diesel locomotives, along with steam shovels and cranes. 1949 earnings not expected to vary significantly. No change in dividend looked for.
New York Air Brake W	......	6.35A	6.20	3.50	11.3	4.6	31	43¾-31	B2	Strongly maintained replacement demand for brakes and wear parts, as well as original equipment sales lend stability to operations. Continued payment of special dividends probable.
Poor & Co. "B"	......	2.50	2.41	1.50	13.6	4.4	11	16⅜-11	C+2	Dominant producer of special track accessories. Backlog orders trending sharply up. Outlook for 1949 bright. Year-end extra probable.
Pressed Steel Car	......	Nil	.97	Nil	......	......	7	11⅝- 5⅞	C+1	Better pricing policies and elimination of unprofitable sidelines should improve 1949 earnings but no immediate dividends in sight.
Pullman	337.4	3.00	2.38	2.00	6.1	11.0	33	53 -31¼	B2	Largest builder of freight and passenger cars, with profitable engineering subsidiary. Improved cost controls and huge backlog should lift 1949 earnings somewhat. Strong finances assure stable dividend.
Symington-Gould	......	.50	.15	.50	10.0	10.0	5	7⅜- 4¾	C3	Producer of castings. Handicapped by high costs. 1949 earnings potentials uncertain and irregular dividends probable.
Union Tank Car	......	4.25	4.23	2.60	7.2	8.5	36	41⅞-31¾	B2	Record consumption of oil products sustaining heavy demand for company's tank cars and truck fleet. Enviable earnings and dividend record likely to continue.
Westinghouse Air Brake W	67.4	5.00A	4.22	3.00	9.4	6.7	32	39⅝-29½	A2	Uniformly successful pioneer in field with dividend record extending back to 1875. Dividends in current year should at least equal those of 1948.
Youngstown Steel Door	......	3.00	2.54	1.50	10.8	4.7	14	19⅝-13⅝	B3	Important producer of patented freight car doors and sides. 1949 volume may dip but dividends should be well maintained.

†—Based on 1948 actual or estimated earnings.
*—Latest indicated.
a—Figures for Superheater only.
A—Actual

1949 Prospects for . . . . . .
FARM Equipments

By FRANK R. WALTERS

While the farm equipment industry's 1949 outlook is promising, some doubt exists as to whether sales and earnings will quite equal the record achieved last year. Confidence is warranted, though, that the better situated concerns should continue to prosper at a rate far above normal in the current year. Competitive factors will determine variations in this respect.

Enlarged facilities, increased supplies of raw materials and improved labor conditions helped expand production of agricultural machinery in 1948 to a point where output became better balanced with demand, at least for many items. This foreshadows a return of a buyers' market in the current year, stressing the importance of sales efficiency at both factory and dealer levels, along with adequate cost controls by such concerns as may experience a moderate dip in volume. There is strong evidence that over-all purchases of farm equipment will continue substantial, but buying will be more selective with price premiums eliminated and deliveries approaching a spot basis. A return to normal seasonal buying trends is indicated, for no longer will farmers feel inclined to grab available offerings of implements months before they can be used.

Productive capacity of the industry in 1949 should be about 10% greater than in 1948 as expansion programs are being completed. Actual volume, both in dollar and unit terms, has been running ahead of year earlier figures since the end of the October 31 fiscal year characteristic of this group. Partially accounting for this were sizable backlog orders for equipment, especially tractors, that have now tended to shrink. Production of many new or improved implements, on the other hand, has broadened market potentials and should help in stabilizing sales to some extent in the months ahead. If sales should recede moderately from the record level of around \$2 billion achieved in 1948, this would not necessarily imply a corresponding decline in pretax earnings. Rather margins will tend to widen under the influence of increased operating efficiency and improved materials supply. If a higher tax rate is established, final net may shrink somewhat but without threatening the dividend status of most concerns. The spread of earnings over dividends is generally so ample that no surprise would arise if payments are actually liberalized in due course.

What Impact Farm Price Break?

The drastic decline in farm commodity prices during recent weeks of course invites caution in appraising this year's market potentials for agricultural implements. The level of farm income normally exerts a decided influence on purchases, to judge from past experience, but under current conditions too much reliance on former statistics might prove fallacious. In the face of a 10% drop in farm population during recent years, mechanization of farm operations has resulted in record production, expanded acreage and peak farm income. Strides in rural electrification, with about 70% of all farms now supplied with electricity, has helped to prove the value of labor saving devices in a period when wage costs have sharply risen. Gross cash income of the farmers totaled about \$31 billion last year, of which almost two-thirds was carried down to net.

This points to a continued strong cash position of farmers. Even at the beginning of 1948, farmers

holdings of cash, deposits and Government securities aggregated $20.3 billion compared with $38.3 billion for all corporations, and at the year-end were substantially swelled by further lush profits from a record crop year. It is evident, accordingly, that the farmers have ample resources to satisfy their mechanization needs during 1949, and that no educational efforts are needed to foster outlays for this purpose. All signs point to lower prices and reduced gross income for the farmers in 1949, but with increased plantings and substantial benefits from Government price supports, they should enjoy above-average prosperity. This surmise of course must be qualified by the vagaries of weather, though shorter crops due to poor weather are bound to bolster prices. At any rate, outlays for equipment comparable to those of last year should entail no difficulties, and if they should decline moderately, over-all volume of the manufacturers would still be large enough to assure satisfactory earnings.

Great Progress in Mechanization

Just what remarkable progress the farmers have made in mechanization has been revealed by statistics of the Department of Agriculture. Last year's immense production record was made possible by the use of 3.15 million tractors, 225,000 corn pickers, and about half a million combines, in each case at least twice the number on the farms eight years ago. In terms of physical labor all classes of crops are now being produced with from one-half to one-third fewer hours of work than were essential not so long ago. What counts heavily, also, has been the surmounting of bad weather conditions during planting seasons, when seeding or reseeding formerly would have occasioned disastrous delays. One large wheat farmer, for example, succeeded in planting 30,000 acres in 30 days' time through the use of modern equipment and only 50 employees, all at a time when use of former methods would have been impossible, due to the lateness of the season.

Expect Good Sales Year

On balance, the manufacturers of farm implements hope to sell about everything they can produce in 1949, provided the outlook for good crops does not change radically. More steel will probably be available to step up production of items still in excess demand. Such equipment as combines and multiple plows are in relatively restricted supply, but smaller equipment of many kinds has reached the prompt delivery stage. This is especially true as regards garden tractors, the novelty of which brought 30 manufacturers into the field. Other forms of small tractors are readily purchased with prompt delivery assured. The supply of trucks also has become more than abundant, though a large manufacturer, International Harvester Company, plans large scale expansion of facilities this year to produce trucks of special design. Perhaps the brightest future now seems assured for sales of cotton pickers. The original high price of this novel machine is offset by its astonishing efficiency, but several years of research have been required literally to rid the cotton pickers of "bugs" that discolored the fibers. This (*Please turn to page* 590)

Position of Leading Farm Equipment Stocks

	Net Per Share 1948	1947	Div. 1948	Div. Yield	Price-Earnings Ratio†	Recent Price	Range 1948-49	Investment Rating	COMMENTS
Allis Chalmers X	$4.75 E	$1.69	$1.60	6.2%	5.5	$26	42 1/8-26	B2	Combined production of farm and electrical equipment provides desirable diversification. Strong trade position and large backlog strengthen earnings potentials. Dividend well secured.
Avery (B. F.) & Sons	3.04	2.60	.50	5.0	3.4	10	16 7/8- 9 1/2	C2	With improved facilities 1948-49 volume should remain fairly stable, with possibly higher earnings. No change in 25 cents quarterly dividend expected.
Case, J. I. X	12.53	5.50	2.00 b	5.7	2.8	35	52 1/2-34 1/2	B3	Produces full line of farm implements. Volume may recede slightly but dividend stability amply assured by substantial earnings coverage.
Deere W	7.16	3.90	2.75	8.3	4.6	33	46 1/8-31 1/4	B2	Long established reputation and increased operating efficiency lend confidence to outlook for well sustained earnings. Conservative dividend safe and liberal extra possible later in year.
Gleaner Harvester	6.32 a	3.91 a	4.20 b	15.8	4.0	25	35 1/4-21 1/2	B3	Record earnings last year may prove postwar peak, but should continue above average. Liberal dividend payer with no established rate.
International Harvester W	3.92	3.36 a	1.70 a	6.8	6.4	25	34 1/4-25 1/8	B3	Dominant producer of farm equipment and trucks. Over-all volume may not equal record of 1948 and higher taxes may slightly reduce final net, but conservative dividend should be amply earned.
Minneapolis-Moline	8.25	5.81	Nil	....	1.5	12	18 1/2-10 5/8	C3	Good outlook for satisfactory earnings, though at somewhat lower level than last year. Completion of recapitalization program now proposed may pave the way for common dividends.
Myers (F. E.) & Bro.	7.88	5.62	4.00	8.0	6.4	50	55 1/8-50	B3	A leading manufacturer of pumps of all sizes. Last year's record sales and earnings may not be sustained, but 75 cents quarterly dividend appears secure, with prospects of occasional extras.
Oliver X	9.38	4.61	3.00	11.6	2.8	26	36 3/8-22 5/8	C+2	Large scale additions and improvements, along with improved distributing facilities enhance outlook. 50 cents quarterly dividend amply earned and should be supplemented by extras now and then.

†—Based on 1948 earnings.
E—Estimated.
a—Adjusted.
b—Plus stock.

FOR PROFIT AND INCOME

Defensive

With the year-end rally phase over and a new base for advance yet to be built after the recent market downturn, the market is on the defensive, but not defenseless. The area around and modestly under the November low of 171.20 for the Dow-Jones industrial average is a support level which is unlikely to be broken easily, and from which a technical snap-back would be normal performance, whether or not the intermediate reaction eventually goes further. Although the last rally high was made January 22 at 181.54, the recent fairly sharp downswing began February 4 from the 180.90 level. On it to date a number of individual stocks have been immune or nearly so. To cite just a few outstanding examples: from the February 3 close up to this writing Sharp & Dohme advanced 3/4 of a point, United States Tobacco 3/8; while Addressograph-Multigraph gave up 1/4 of a point, Sterling Drug 1/8, Beneficial Industrial Loan 3/4, Commonwealth Edison 1/4 and Pacific Gas & Electric 3/4 point. The great majority of the stocks holding up well are typical "defensive" issues, characterized by exceptional stability of earnings and dividends. Few people are inclined to speculate these days. There is no inclusive index of "cats and dogs." Were there one, it would be seen to have been in a major bear trend since the summer of 1946.

U. S. Tobacco

We noted above that U. S. Tobacco, a fraction under 21 at this writing, advanced during the recent market decline. In our December 4 issue it was pointed out that this largest snuff manufacturer had paid out virtually all earnings in dividends for some years, with an unbroken dividend record since 1912; and that the stock, then 18½ and yielding about 7.5% on the $1.35 dividend total of 1948, could be considered a good investment buy, for income and substantial eventual appreciation, provided corporate taxes were not raised significantly. Its recent action reflects rising hope that Mr. Truman's requested tax boost will not get Congressional approval this year. Present Washington indications give it less than a 50-50 chance. After further appraisal, this column concludes that earnings are likely to be a little over $1.50 a share this year, permitting some further increase in the dividend, on the basis of the present 38% tax rate; and that even were the rate boosted to 45%, net would about equal the present $1.35 dividend. It is hard to see why the stock should return to its 1948 low of 17½ within the foreseeable future. How extreme 17½ is for this issue is emphasized by noting that the 1942 bear-market low was 15½, 1937-1938 bear-market low was 28½, and 1932 panic low was 13¾. On the other hand, the stock sold materially over the present price in each year from 1934 through 1947, and in the vicinity of 30, or above it, in eleven of those years.

Sharp & Dohme

The reason why this stock has withstood the general market sell-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Archer-Daniels-Midland	6 mos. Dec. 31	$3.66	$2.89
Bigelow-Sanford Carpet	Year Dec. 31	8.11	5.97
Burlington Mills	Dec. 31 quar.	1.53	1.47
Continental Steel	Year Dec. 31	3.24	2.59
Freeport Sulphur	Year Dec. 31	5.42	3.89
General Baking	Year Dec. 25	2.56	1.31
Howe Sound	Year Dec. 31	6.16	3.15
Murphy, G. C.	Year Dec. 31	4.76	4.25
Republic Steel	Year Dec. 31	7.61	5.17
Woolworth, F. W.	Year Dec. 31	4.48	4.32

off is not hard to find. The company is a long-established maker of a broad line of ethical drugs. Its prewar record was distinctly mediocre; but in more recent years there has been some new blood in the management and outstanding progress in research. Results have been striking. The general experience of the drug industry was a rise to abnormally high earnings in 1946, a rather sharp shrinkage in 1947, a moderate improvement last year. In contrast, Sharp & Dohme earned $2.84 a share in 1946, a record high up to that time; but went on to another record in 1947 at $3.14 a share, and still another in 1948 at $4.15 a share. The company, which makes about 850 biological and pharmaceutical products, has developed a number of highly successful new drug preparations. The reasons behind the earnings trend cited are obviously internal, rather than industry-wide. Therefore, continuing superior results are likely. Due to expansion needs, the dividend is only $1. There are $4 million in funded debt and 229,085 shares of $3.50 cumulative preference stock ahead of the 791,627 shares of common. The latter is now around 26, against 1946 high of 39¾. It should continue to hold much better than the market in periods of general decline, and is capable of rising more than the market over the longer term.

The Record

It is a curious fact that the Dow industrial average has declined under the January high at some time in the four-month period February-May in each and every year since 1897, which is as far back as this average goes. The lows of this period — the period of late winter and early spring — have come in February in 17 years, in March in 11 years, in April in 8 years and in May in 15 years. In strong bull-market years the tendency has been toward technical corrections in February or March; while in major bear markets new "legs" of decline have usually been well under way by April or May. If there is any practical lesson in this record, it eludes us. The Dow industrial average has swung up and down in an 18% range, measured from low to high, since October, 1946. In that kind of market one needs a good crystal ball more than anything else.

I. T. & T.

Whether the reported deal whereby International Telephone & Telegraph takes over the ailing Farnsworth Television & Radio, by an exchange of one share of I. T. & T. for 12 shares of Farnsworth, will be a bargain for either side remains to be proven. If I. T. & T. is worth 9½, the price at this writing, Farnsworth is worth a little less than 80 cents a share. It is selling over double that currently, and sold as high as 11¾ last year. Started as a communications enterprisce in the foreign field, I. T. & T. profits now come largely from manufacturing in highly competitive lines. If you do not own stock, this column can think of no very good reason why you should.

Assets

Many stocks are now selling for less than net quick assets per share. That fact does not make them bargains, for the stockholder will never get any of the quick assets unless the company liquidates; and liquidations are about as rare as hens' teeth. If two stocks have equal earnings and equally good prospects, one will feel more comfortable with the one with the higher quick assets, but that is about all it amounts to. Current and potential earnings and dividends influence stock prices decisively, assets very little. To prove this point, note the contrast between Mack Trucks and Dow Chemical. As far back as the writer can recall, the former has been included in every list of stocks with high quick assets per share; while the latter is properly included in any list of growth stocks. After allowing for funded debt and preferred stock, Dow has no quick assets per share of common. But had you bought the stock at its 1929 bull-market high you would currently have a very large profit on it. Had you bought Mack at the 1929 high, or any subsequent major or intermediate high, you would now have a whopping loss. Since Dow sold at a new all-time high of 50½ not so long ago, the largest loss any holder can have on it currently is 4 points, and that is no doubt temporary.

L-P Versus H-P

One can argue all night about the advantages and disadvantages of low-priced stock, compared with higher-priced stocks. Bought at the right time, there are maximum profits in low-priced stocks; bought at the wrong time, you lose more than you would on high-priced stocks. But this is merely a relative matter, for you can lose plenty on either type in any major bear market. A fact not sufficiently recognized is that the discrepancy between low-priced and high-priced stocks is always great at bull-market highs but moderate at bear-market lows. For example, our index of 100 low-price stocks fell only 11.54 points under the index of 100 high-price stocks at the 1942 low but rose 135.42 points above it at the 1946 high. In both of these indexes, the level of November 14, 1936, when the composite index was approximately at 100, equals 100. Currently the low-price index is still 56.25 points above the high-price index. This column expects that the spread will narrow further but doubts that the two indexes will cross any time this year.

Utilities

No probable degree of business recession this year will lower in-

(*Please turn to page* 590)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
American Woolen	Year Dec. 31	$11.79	$15.37
Atlas Powder	Year Dec. 31	3.91	6.78
Cluett, Peabody	Year Dec. 31	5.59	7.20
Columbia Gas System	Year Dec. 31	1.12	1.36
Consolidated Cigar	Year Dec. 31	7.01	7.53
Emerson Electric Mfg.	Dec. 31 quar.	.52	.99
Owens-Illinois Glass	Year Dec. 31	3.38	4.58
Newport Industries	Year Dec. 31	1.82	3.90
U. S. Rubber	Year Dec. 31	8.48	9.39
Warner Bros.	Nov. 27 quar.	.42	.54

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

International Shoe Company

"Please advise on recent earnings, dividends and working capital of International Shoe Company."

P.B., Baltimore, Md.

International Shoe Company's net profit for the fiscal year ended November 30, 1948 was $13,820,197, a decrease of $181,820 under the figure of $14,002,017 for the previous year.

Net sales for the year amounted to $219,804,880, an increase of $6,886,688 over the figure of $212,918,192 for the preceding year. The company's earnings represented 6.3% of its net sales, as compared with 6.6% for the previous year. Earnings were $4.06 per share, as compared with $4.11 per share in 1947. Dividends totalled $3.00 per share in 1948, or 75 cents more than the $2.25 dividend in 1947. On October 1, 1948, the company paid its 150th consecutive dividend on its common stock, dividend payments having extended over 36 years without interruption.

International's production of 54,601,610 pairs of shoes during the 1948 fiscal year represented more than 11% of all the shoes produced in the United States.

Net working capital was $65,395,072 at the end of the year. The increase of $1,358,019 for the year, came from the reinvestment of current earnings.

Accounts receivable of $33,763,344 showed an increase of $6,657,820 over the previous year. Resumption of seasonal swings in the shoe business, very notable in 1948, necessitated somewhat larger inventories for maintenance and improvement of service.

The increase in receivables and inventories required some short-term borrowing, as indicated by the $5 million of notes payable. This short-term borrowing in the last half of 1948 was the first done by the company in about 25 years. The annual dollar volume of the company's business is now running more than two and one half times the average volume in the years 1936 to 1939, commonly accepted as a representative prewar period. Naturally it requires much more working capital to do an annual volume of $220 million than it does for a volume of $80 or $90 million.

West Virginia Pulp & Paper Company

"Please let me know the operating record of West Virginia Pulp & Paper Company for the past year or two."

F.M., Greenwich, N. Y.

West Virginia Pulp & Paper Company's operating expenses increased more than $7,500,000 during the fiscal year 1948, but earnings, however, remained about the same as in 1947. Operating expenses for the year ended October 31, 1948 amounted to $82,860,000 compared with $75,267,000 in 1947. Net income for 1948 was $10,842,159, as against the previous year's $10,935,424. To maintain earnings on the 1947 level, the company had to push its machines to produce both more tonnage and better quality, and then move the production, some of it at higher prices, in less eager markets. The production of paper and paperboard rose from 637,542 to 687,343 tons, or 7.8%, and the output of chemicals for outside sales amounted to about 60,000 tons. Net sales of all products rose from $85,989,056 to $93,242,724, or 8.4%.

After paying dividends of 4½% to preferred stockholders, $4.00 per share was paid on the common stock in 1948.

Although the company held back on account of high prices, it spent on plants during the year a total of $5,169,755, compared with $10,027,000 in 1947, to bring the total of expenditures for plant improvements during the past five years to almost $30 million. In addition to earnings from operations, the company realized $1,356,021 from sales of timber as compared with $546,503 in 1947.

After payment of dividends and all charges, $2,990,304 was added to income reinvested or retained in the business.

There are signs that in several areas the production of paper and paperboard has already caught up with demand and meanwhile the cost of raw materials and operating supplies, the cost of maintaining and replacing equipment, labor, freight rates, etc. have been rising progressively and this is narrowing profit margins. Any substantial decline in volume at present prices can quickly reverse the trend of earnings. Earnings for quarter ended January 31 are estimated at $2.64 per share. In addition to regular quarterly dividend of 25 cents, a special of 25 cents was declared. Both are payable April to holders of record March 15.

Celotex Corporation

"Please let me have information on Celotex Corporation's earnings, outlook and dividends."

F.A., Springfield, Mass.

Net income of Celotex Corporation for the fiscal year ended Octo-

ber 31, 1948, was $6,785,188 after all charges and provision for income taxes, compared with income of $6,227,929 on the same basis in the preceding year.

Earnings after preferred stock dividend requirements were equal to $7.20 a share on 905,472 shares of common stock outstanding, compared with $6.59 a share on the same number of shares a year before.

Net sales totalled $54,190,341, compared with $46,872,119 in the preceding year. Net working capital increased from $8,411,388 to $11,348,278.

Approximately 13,800 stockholders held shares of the company on October 31, 1948 compared with approximately 13,200 stockholders a year before.

A three year program looking toward the expansion and modernization of certain of its manufacturing facilities was completed during the fiscal year. The major benefits therefrom were realized somewhat in 1947 and increasingly in 1948.

Since early November 1948, there has been a sharp decline in demand for building materials affecting not only Celotex but the industry generally. It cannot now be determined with certainty whether this decline in demand for its products is a return to a normal seasonal trend of some years ago or whether it may be of longer duration. The volume of building permits issued, however, has continued at a high level, need for housing is still urgent, need for repair and rehabilitation in many existing structures is apparent and and predictions generally are that that year 1949 will be a good building year. To satisfy these construction needs will require considerable building activity for at least a few years to come, to which Celotex expects to contribute its full and reasonable share.

Dividends in 1948 totalled $1.75 per share against $1.12½ in 1947.

Emerson Radio & Phonograph Corporation

"Please report recent earnings and dividends of Emerson Radio & Phonograph Corporation."

C.H., Washington, D.C.

Emerson Radio & Phonograph Corporation and its wholly owned subsidiaries, for the fiscal year ended October 31, 1948 showed the highest profit in the history of the organization with an income of $2,401,768 as compared with income of $2,263,024 for the previous fiscal year. Net income, after taxes, for the twelve months amounted to $3.00 per share on 800,000 shares of capital stock now outstanding. The corresponding amount for 1947 was $2.82 per share on the same number of shares outstanding. Consolidated net sales for the fiscal year amounted to $30,926,842 as compared with $32,658,122 for the preceding fiscal year. During the recently completed fiscal year the company paid cash dividends totalling $780,000, being equivalent to 97½ cents per share.

On March 2, 1948, a stock distribution was made to the stockholders of record on February 17, 1948 at the rate of one additional share of capital stock for each share held, thereby increasing the number of shares outstanding from 400,000 to 800,000. This stock distribution was in the nature of a two for one split-up of the outstanding shares (but without a reduction of the par value of $5.00 per share) and was effected, for convenience, in the form of a stock dividend.

Emerson sales of a wide range of models of radios, phonographs and phono-radios during 1948 continued in large volume concurrently with large growth in television production and sales. Emerson's operations in behalf of the United States Government expanded during the year. The Engineering Department continues to be engaged in development work under contract with the Army and United States Bureau of Standards.

During the year just completed, television production had become a very significant factor in the company's net income. It is expected that more than half of Emerson's total volume of business in 1949 will be in the sale of television receivers.

Niagara Hudson Power Corporation

"Please advise on operating revenues and net income of Niagara Hudson Power Corporation."

H.M., Paterson, N. J.

The consolidated net income of Niagara Hudson Power Corporation and subsidiary companies for 1948 was $13,460,000 compared with $14,860,000 in 1947. After preferred dividend requirements of the corporation, this was equivalent to $1.15 per share on the common stock for 1948, compared with $1.30 per share in 1947. These figures are preliminary and subject to final audit.

Total operating revenues of the System were $138,116,000 in 1948, compared to $129,000,000 in 1947. The sales of electrictiy and gas were at record peace-time levels.

The decline in net income was due to mounting costs of operations which were accentuated by a general wage increase and by severe drought conditions in 1948. The drought materially reduced the output of hydro electric stations, thereby increasing the use and cost of coal and purchased power. However, recent rainfalls have created the largest water reserve for hydro generation that the System has had at this time in many years, thereby substantially increasing the KWH generated by the 80 System hydro electric plants in northern and eastern New York. Hydro electric generation in these plants in January 1949 was about 269 million kilowatt hours, or 118% greater than in January 1948.

The Niagara Hudson System is making great progress in its expansion program to take care of demand for power and to provide additional reserve capacity.

Company has filed with the SEC an amended plan for merger of Central New York Power Corporation, New York Power & Light Corporation and Buffalo Niagara Electric Corporation, principal operating subsidiaries into a single operating unit, bearing parent company's name. The SEC has set March 1st for hearing on this plan. When approved, the consolidation of the three major units into a single operating company will have plant facilities valued at about $470 million.

Carrier Corporation

"Please report sales and earnings of Carrier Corporation."

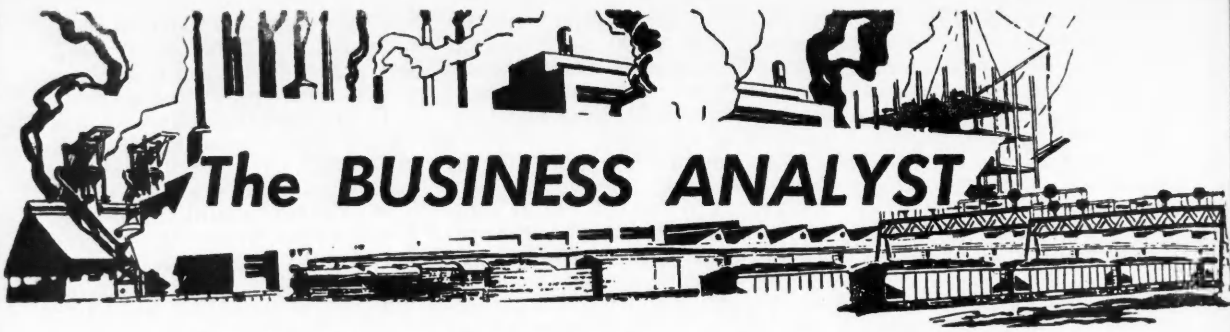
M.F., Pittsburgh, Pa.

Carrier Corporation, leading manufacturer of air conditioning, refrigeration and industrial heating equipment, reported a net profit of $2,710,412 or $4.19 per common share for the fiscal year ended October 31, 1948. This compared with $2,272,774 or $3.44 per common share for fiscal 1947. Sales for the year amounted to $54,456,394, and booked $52,676,015 of new orders. The comparable figures for fiscal 1947 were $52,910,590 and $47,686,249.

The earnings, sales and new business figures for last year constituted an all-time high fiscal year for the corporation.

Carrier's backlog of unfilled orders totalled $17,823,885 as of

(*Please turn to page* 598)

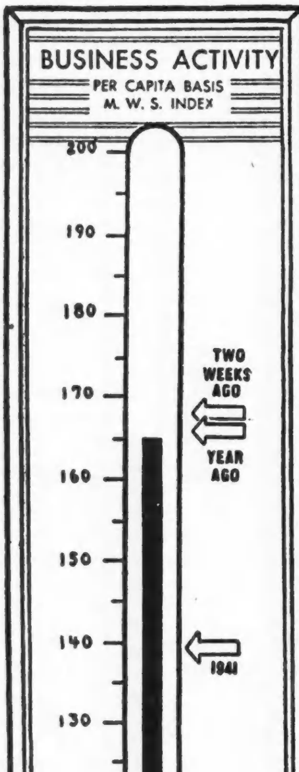


What's Ahead for Business?

By E. K. A.

It would not surprise if business after its recent diet of scare news would soon be treated to a more wholesome fare.

Almost obscured by commodity crash headlines has been the growing official Washington tendency to retreat from President Truman's $4 billion tax increase demand, despite a recent presidential statement to the contrary. Uncertainty over the business outlook and the discovery that internal revenue collections increased by some $3 billion last year despite the tax cut have considerably weakened the case for higher business taxes. Congress right along has been loath to approve a new $4 billion impost. Falling prices, resultant inventory problems and rising unemployment combined to enhance this reluctance and it is quite likely that business can look forward to better tax treatment than expected. If so, this could go far toward bolstering business sentiment and business. It also would illustrate that deflation, after all, has its constructive aspects, something that is further exemplified by the weakening of labor demands.



Another boost may come when leading merchandisers will be forced to return to the market and place new orders. In the recent past their policy has been ultraconservative; most of them were operating virtually on a hand-to-mouth basis. They cannot do it forever. Inventories are full of holes and considerably unbalanced. They will have to step up ordering now that clearance sales are largely over and new buying budgets have to be worked out and implemented.

There are a few more bright spots penetrating the present gloom. Lay-offs are diminishing and there has been a good deal of re-employment of workers let out during recent weeks. While unemployment almost certainly further increased during January (the next official statistics thus will not show any improvement), this trend has been slackening and should at least stabilize if not moderately reverse in coming months. Much of course depends on the strength of seasonal rebound in business activity normally due in late spring.

All this doesn't mean, of course, that present troubles are disappearing; far from it. While price deflation so far was mainly limited to farm products, declining tendencies are becoming evident elsewhere and this is bound to make for business and consumer caution. This is beginning to make itself felt even in capital goods lines as evidenced by slackening railroad orders for rolling stock despite existing needs. If price declines, instead of stimulating demand, result in postponement of spending plans on a large scale, the impact could be severe at least until there is evidence of price stabilization on a lower plateau.

But while further adjustment appears definitely in the offing, it is difficult to see how any decline can go very far. Increased Government spending may well exceed the probable drop in private business spending at least during the first half of the year and this drop may be less than now anticipated if constructive tax policies prevail. The importance of the latter on overall business policies should not be underrated. Nor the Government's determination for quick offsetting action if things really threaten to get out of hand.

Accelerated Trend to Lower Living Costs

Moreover, prospects point to a steady drop in living costs through 1949. Deflation of farm commodities is putting down the cost of food and clothing and if there is a sharp enough lowering of prices, more people will be buyers of other goods (of which they are now priced out) and more such goods can be produced and sold. It is a process that need not necessarily take a long time though the time factor in previous adjustment phases has varied. The sharp break in commodities will accelerate it. New purchasing power created through price cuts can become an important bolstering factor though while this will help some people, it will hurt others. Essentially it will be the farmer's loss who will have to sacrifice some of the high prosperity he has been enjoying in recent years, but his loss will be limited by generous Government price supports. While these constitute a broad and expensive umbrella protecting farm prosperity, it cannot provide complete shelter against the effects of continuous bumper crops and declining demand.

The Business Analyst

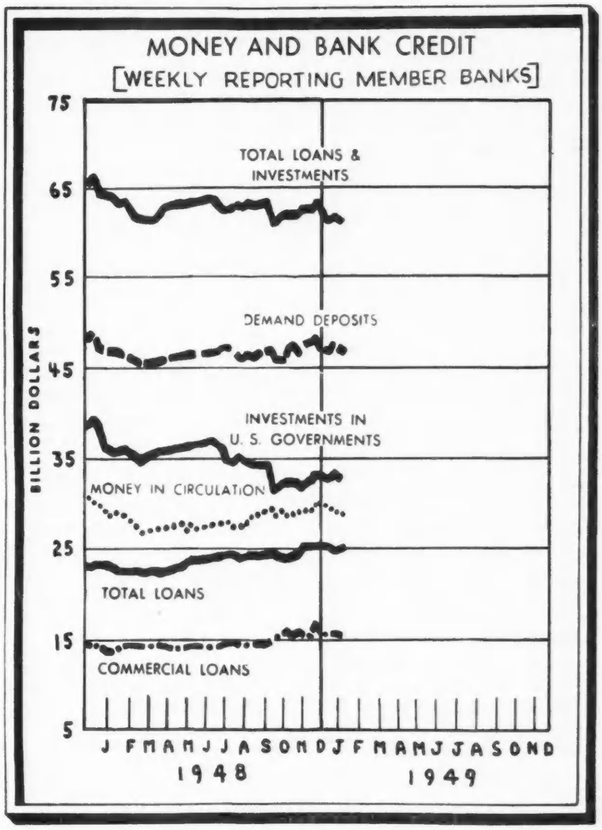
HIGHLIGHTS

MONEY AND CREDIT—All three of our major common stock indexes sank to new lows since 1947 during the fortnight ended Feb. 12. The decline was attributed to heavy selling in commodity markets, which caused some traders to dispose of stockholdings to raise cash for additional margin on commodity positions, along with continued uncertainty in the business outlook. Our index of 320 active common stocks as of Feb. 11 was down 4.4% on the year. Even the better grade preferred stocks and bank stocks joined the decline, the former selling off to the lowest average level in 6 weeks. Foreign government dollar bonds, which had been persistently strong during the first five weeks of the year, sold off sharply in the week ended Feb. 11, reflecting further deterioration in the strained relations between East and West. High grade corporate bonds held firm, however, while the restricted Victory 2½s advanced to the best price since the week ended Oct. 4, 1947. Total bank loans declined 1.2% during January, in contrast with a small increase in the like month last year, but bank assets showed only fractional contraction, owing to offsetting purchases of U. S. Governments.

TRADE—Ending of post-holiday clearance sales joined with unfavorable shopping weather during the week ended Feb. 5 in producing a 4% drop below last year in department store sales. Unemployment, despite the rather sharp January rise, is still too small to act as more than a psychological trade depressant.

INDUSTRY—Business activity, though off somewhat more than seasonally during the fortnight ended Feb. 5, was still 1.4% above the like date last year.

COMMODITIES—Farm products prices slumped spectacularly during the fortnight ended Feb. 12 in response to heavy offerings in excess of available storage facilities.



Business Activity contracted about 1½% during the fortnight ended Feb. 5 but, as the decline was even sharper in the like interval of 1948, the margin of increase over last year widened to 1.4%. Heavy snowstorms in the West, and unseasonably warm weather in other areas, have contributed to business slackening of recent weeks; though there is some evidence that it may also reflect a more than temporary change for the worse in overall business conditions.

* * *

Both influences may be seen at work upon **Electric Power** output, a component of our Business Index. Total output in the week ended Feb. 5, for example, was 7% ahead of the like week last year; but in New England, home of the slackened textile industry, output was actually down 1.6%. At the other extreme appears the snow-darkened and chilled Rocky Mountain region where consumption was up 21.5%.

* * *

This publication's index of **Business Activity** rose ½ point from December to January, to 191.6% of the 1935-9 average —1% above Jan., 1948. On a per capita basis, our index in January registered 167.8% of the 1935-9 average, compared with 167.5 in December and 169.1 for Jan., 1948.

* * *

The Census Bureau estimates **Unemployment** in the first week of January at 2.65 million—723,000 more than a month earlier, and 599,000 above the like time last year. This is a considerably greater than normal seasonal increase; but not too alarming in view of the ameliorating circumstance that total non-agricultural civilian **Employment** is still 562,000 greater than a year ago. The anomaly of employment and unemployment increasing at approximately the same rate is accounted for by the abnormally large percentage of people of working age, especially women, who are now seeking jobs to meet the high cost of living. Of the increase in employment during the past year, women accounted for 70%; yet they accounted for only 30% of total non-agricultural civilian employment.

* * *

The recent rise in unemployment is moderating demands for **Wage Increases,** particularly among workers in non-durable consumer goods industries. Two C. I. O. unions, the Textile Workers' and the Amalgamated Clothing Workers', have bowed to the logic of circumstance in deciding not to press for further wage advances at the present time. President William Green of the A. F. of L. concedes that, owing to the decline in Living Costs, the fourth round of wage increases will not be general.

* * *

Construction promises to be an important instrument this year in cushioning any general recession that may develop. It is already off to a good start. Engineering construction contracts awarded during the first five weeks, according to the Engineering News-Record, covering about 44% of all construction work, involve estimated expenditures of $776 million

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Jan.	1.17	1.20	1.20	1.55
Cumulative from mid-1940	Jan.	377.2	376.0	364.0	13.8
FEDERAL GROSS DEBT—$b	Feb. 9	252.5	252.5	254.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 2	46.9	47.6	48.2	26.1
Currency in Circulation	Feb. 9	27.6	27.6	28.2	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Feb. 2	9.01	8.99	8.88	4.26
93 Other Centers—$b	Feb. 2	13.32	13.30	12.72	7.60
PERSONAL INCOMES—$b (cd3)	Nov.	219.0	217.9	203.2	102
Salaries and Wages	Nov.	139.6	139.4	129.2	66
Proprietors' Incomes	Nov.	51.1	50.5	47.1	23
Interest and Dividends	Nov.	18.0	17.7	16.1	10
Transfer Payments	Nov.	10.3	10.3	10.8	3
(INCOME FROM AGRICULTURE)	Nov.	25.9	25.3	21.8	10
CIVILIAN EMPLOYMENT—m (cb)	Jan.	57.4	59.4	57.1	51.8
Agricultural Employment (cb)	Jan.	6.8	7.4	7.1	8.8
Employees, Manufacturing (lb)	Dec.	16.2	16.4	16.3	13.8
Employees, Government (lb)	Dec.	6.0	5.7	5.6	4.6
UNEMPLOYMENT—m (cb)	Jan.	2.7	1.9	2.1	3.8
FACTORY EMPLOYMENT (1b4)	Dec.	159	161	162	147
Durable Goods	Dec.	186	183	189	175
Non-Durable Goods	Dec.	138	140	141	123
FACTORY PAYROLLS (1b4)	Nov.	378	382	353	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Nov.	39.8	39.9	40.4	40.3
Hourly Wage (cents)	Nov.	137.0	136.6	126.8	78.1
Weekly Wage ($)	Nov.	54.49	54.50	51.29	32.79
PRICES—Wholesale (1b2)	Feb. 8	156.9	158.8	160.9	92.5
Retail (cdlb)	Nov.	193.4	195.0	185.9	116.2
COST OF LIVING (1b3)	Dec.	171.4	172.2	167.0	110.2
Food	Dec.	205.0	207.5	206.9	113.1
Clothing	Dec.	200.4	201.4	191.2	113.8
Rent	Dec.	119.5	118.8	115.4	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Dec.	13.02	11.01	12.64	4.72
Durable Goods	Dec.	3.23	3.05	3.09	1.14
Non-Durable Goods	Dec.	9.79	7.96	9.55	3.58
Dep't Store Sales (mrb)	Dec.	1.40	0.97	1.35	0.49
Retail Sales Credit, End Mo. (rb2)	Dec.	7.98	7.45	6.45	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Nov.	250	249	268	181
Durable Goods	Nov.	277	278	307	221
Non-Durable Goods	Nov.	234	231	244	157
Shipments (cd2)—Total	Nov.	353	354	337	187
Durable Goods	Nov.	400	398	353	227
Non-Durable Goods	Nov.	322	328	328	158
BUSINESS INVENTORIES, End. Mo.					
Total—$b (cd)	Dec.	54.0	55.4	48.0	28.9
Manufacturers	Dec.	31.8	31.2	28.0	16.7
Wholesalers'	Dec.	8.3	8.5	7.6	4.1
Retailers'	Dec.	13.9	15.7	12.4	8.1
Dept. Store Stocks (mrb)	Dec.	3.1	2.6	1.9	1.4
BUSINESS ACTIVITY—1—pc	Deb. 5	165.5	167.3	166.4	141.8
M. W. S.)—I—np	Feb. 5	189.4	191.1	186.9	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 583)

—64% more than contracted for in the like interval last year.

* * *

Actual expenditures for new construction in January amounted to $1.26 billion—9% above the like month last year; though private non-farm residential building was off 2%.

* * *

Construction, being in the capital goods category, is an important prop to prosperity. Last year it amounted to $14 billion, or one-third of our total **Capital Formation.**

* * *

Construction often moves counter to the **Business Cycle.** It turned upward sharply in the depression year, 1921, continuing to expand until 1926. It turned upward in 1934, ignored the 1938 recession, and did not peak until we entered the war in 1941.

* * *

A sharp upturn during November and December in new orders for **Machine Tools,** another component of capital formation, is also of hopeful augury. So also is the speed-up in stock-piling of **Strategic Materials,** recently ordered by the Munitions Board.

* * *

Owing mainly to a 7.4% decline from last July's peak in lumber prices, **Construction Costs** have eased about 1% from the recent high established last October. But, as most other components are still rising slowly, no substantial relief from the high cost of building seems likely in the near future.

* * *

President Truman's aim to formulate a **Planned Economy** with the laudable object of ironing out the Business Cycle might be worth trying if conceived intelligently, and handled with minimum bureaucratic interference and with the resourcefulness, flexibility and adaptability of private initiative. But experience has proved repeatedly that this is impossible. Government planning inevitably leads to compulsion and controlled economy, which the President professes to oppose.

* * *

As a recent example of the approach to a Planned Economy comes an announcement that **Bureaucratic Intervention** has rushed to the aid of Freight Car Builders upon learning that their backlog of unfilled orders as of Feb. 1 was 20% smaller than on the like date last year and 27% under the post-war peak reached on May 1, 1948. Noting that the need for new freight cars has been cited often by the railroads as an important justification for seeking higher freight rates, the O. D. T. now threatens to cease efforts to get steel allocations for new

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Dec.	192	195	192	174
Mining	Dec.	156	161	156	133
Durable Goods Mfr.	Dec.	228	229	229	220
Non-Durable Goods Mfr.	Dec.	174	177	173	151
CARLOADINGS—t—Total	Feb. 5	682	679	747	833
Manufactures & Miscellaneous	Feb. 5	329	333	351	379
Mdse. L. C. L.	Feb. 5	93	91	106	156
Grain	Feb. 5	38	39	39	43
ELEC. POWER Output (Kw.H.)m	Feb. 5	5,778	5,810	5,412	3,267
SOFT COAL, Prod. (st) m	Feb. 5	11.4	10.5	11.4	10.8
Cumulative from Jan. 1	Feb. 5	56.7	45.3	66.2	446
Stocks, End. Mo.	Dec.	69.4	69.6	52.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 5	5.3	5.4	5.3	4.1
Gasoline Stocks	Feb. 5	117	115	105	86
Fuel Oil Stocks	Feb. 5	82	84	50	94
Heating Oil Stocks	Feb. 5	64	67	38	55
LUMBER, Prod. (bd. ft.) m	Feb. 5	389	353	488	632
Stocks, End Mo. (bd. ft.) b	Nov.	7.4	7.2	5.8	12.6
STEEL INGOT PROD. (st.) m	Jan.	8.17	7.77	7.47	6.96
Cumulative from Jan. 1	Jan.	8.17	88.5	7.47	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 10	131	210	134	94
Cumulative from Jan. 1	Feb. 10	907	776	600	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Feb. 5	220	168	223	165
Footwear Production (pairs)m	Nov.	34.7	39.0	38.0	34.8
Motor Vehicles, Factory Sales—t	Nov.	469	492	394	352
Pneumatic Casings Production—m	Nov.	6.1	6.8	7.7	4.0
Natural Rubber Consumption (lt)t	Nov.	51.5	49.6	52.1	54.3
Do., Synthetic	Nov.	40.9	41.4	37.8	0.5

PRESENT POSITION AND OUTLOOK

equipment unless the carriers step up their orders. The head of the O. D. T. is also a member of the I. C. C., which is now considering the carriers' latest request for a freight rate increase.

* * *

The Railroads, pointing to declining traffic, think they can buy cheaper by waiting. Post-war freight car contracts have escalator clauses permitting price adjustments to meet rising costs. Despite cancellations and the booking of orders for only 563 new cars in January, freight car builders' backlogs are still so large that deliveries can not be made inside of ten months. A heavy influx of orders at this juncture would merely lengthen delivery time and stiffen builders' resistance to lower prices.

* * *

Car builders say they must have a six-month backlog because steel requirements have to be lined up far in advance. A passenger car builder, on the other hand, says his company doesn't need help to get steel, as there is no longer a shortage of stainless steel.

* * *

Nettled by the carriers' contention that there is no longer a freight car shortage, the O. D. T. has just issued an order lowering the carload limit to pre-war levels. Thus more cars will be needed. If there is no shortage, why not create a shortage?

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

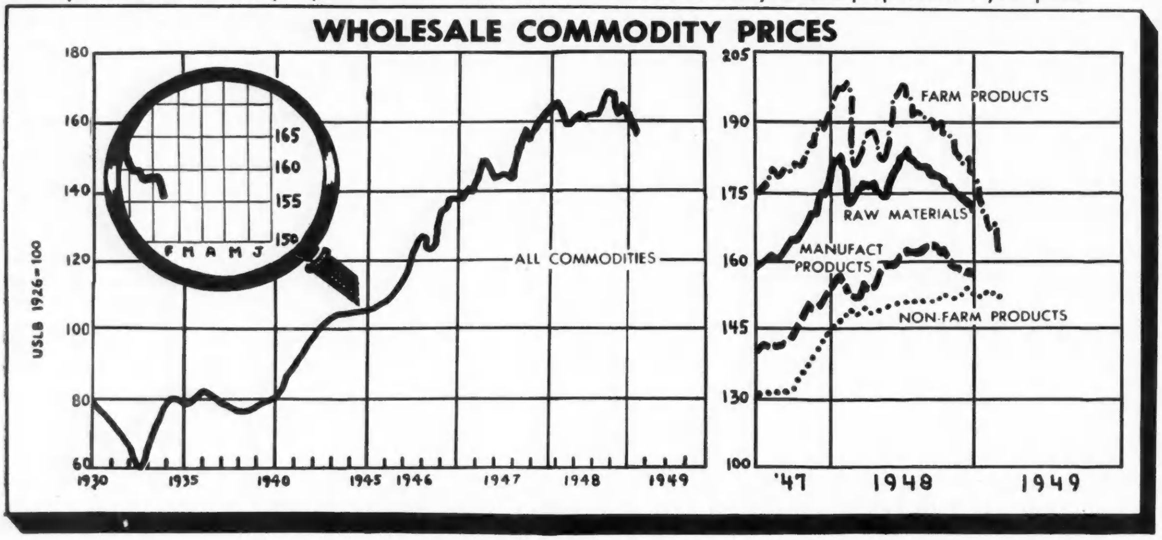
No. of Issues (1925 Close—100)	1948-9 Indexes High	Low	Feb. 5	Feb. 11
320 COMBINED AVERAGE	151.9	115.8	118.3	115.8b
4 Agricultural Implements	240.1	175.6	181.0	175.6b
10 Aircraft (1927 Cl.—100)	193.5	134.3	145.1	146.0
6 Air Lines (1934 Cl.—100)	515.6	342.1	377.1	370.9
6 Amusement	106.8	73.0	77.5	79.3
12 Automobile Accessories	224.1	164.1	171.0	164.1b
12 Automobiles	41.3	24.5	26.1	24.5e
3 Baking (1926 Cl.—100)	21.9	16.4	18.7	18.5
3 Business Machines	297.1	215.9	225.4	215.9e
2 Bus lines (1926 Cl.—100)	168.4	118.3	122.1	118.3b
5 Chemicals	267.1	218.0	225.9	222.4
3 Coal Mining	26.9	14.7	16.3	16.0
4 Communication	56.1	35.2	35.6	35.9
13 Construction	71.5	52.3	53.6	52.3b
7 Containers	346.0	263.5	271.4	264.0
9 Copper & Brass	119.1	84.0	87.5	84.0d
2 Dairy Products	60.2	50.7	54.7	53.5
5 Department Stores	71.9	50.2	52.7	50.2d
6 Drugs & Toilet Articles	184.4	140.2	142.6	143.4
2 Finance Companies	268.3	199.4	251.1	246.1
7 Food Brands	177.6	146.0	148.3	146.0d
2 Food Stores	67.5	57.9	63.8	62.7
3 Furniture	88.3	66.3	67.5	66.3b
3 Gold Mining	772.7	515.1	630.9	655.2

(Nov. 14, 1936, Cl.—100)	High	Low	Feb. 5	Feb. 11
100 HIGH PRICED STOCKS	91.84	74.71	76.16	74.71b
100 LOW PRICED STOCKS	182.86	130.96	134.10	130.96b
6 Investment Trusts	71.6	50.0	55.2	53.9
3 Liquor (1927 Cl.—100)	843.5	630.7	641.6	630.7b
10 Machinery	179.5	122.9	126.7	122.9e
3 Mail Order	125.5	89.8	95.2	92.2
3 Meat Packing	112.7	73.0	74.1	74.0
12 Metals, Miscellaneous	189.1	138.0	143.8	140.6
4 Paper	48.7	33.3	33.6	33.3b
29 Petroleum	301.0	199.5	215.7	215.5
21 Public Utilities	124.9	97.8	106.2	106.0
6 Radio (1927 Cl.—100)	30.6	17.8	19.9	18.5
9 Railroad Equipment	67.2	44.7	45.9	44.7f
24 Railroads	30.3	19.8	20.6	19.8b
3 Realty	27.1	21.1	22.2	22.2
3 Shipbuilding	150.8	107.8	127.4	124.9
3 Soft Drinks	516.5	298.2	322.7	327.4
14 Steel & Iron	127.0	96.2	98.1	97.4
3 Sugar	54.7	43.5	46.9	43.5e
2 Sulphur	281.9	206.6	250.1	233.8
5 Textiles	170.4	118.9	122.1	122.9
3 Tires & Rubber	34.5	27.5	29.4	28.9
6 Tobacco	71.7	62.4	69.4	69.5
2 Variety Stores	327.8	286.9	317.1	312.1
17 Unclassied (1947 Cl.—100)	109.8	86.2	88.8	86.2b

New LOW since: b—1947; d—1945; e—1946; f—1943.

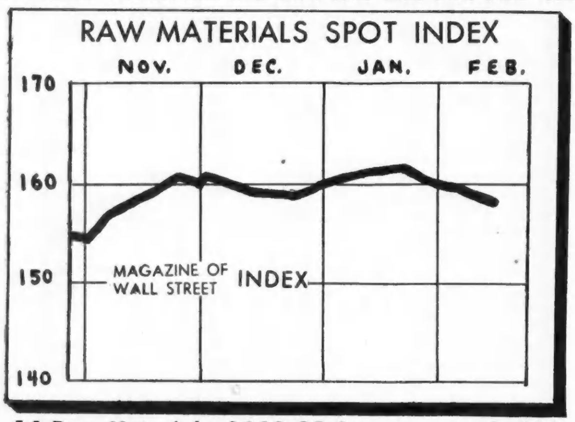
Trend of Commodities

Farm products prices plunged spectacularly during the past fortnight, with futures dropping to the lowest average level since June 25, 1947; then rallied a little on short covering and hopes that the Government would do something about it. Main causes for the break are overabundant harvests and inadequate storage capacity to accommodate swelling surpluses. Substandard grades that cannot qualify for export or Government loans are being dumped at whatever price markets at the moment are willing to pay. Some of our smaller farmers prefer to sell even high grade products below support prices rather than struggle with the red tape required for placing them under Government loan. The International Cotton Advisory Committee sees prospects of an adequate world supply of the staple for the 1948-49 season, with a possible small surplus. Bureaucratic "planners," who secretly hope to enhance their own importance by fastening a controlled economy upon this country, have promptly characterized this latest manifestation of the workings of the inexorable natural law of supply and demand as a crisis calling for more and stricter controls. They want power to regulate speculation in futures, additional authority to dictate the number of acres to be planted to each crop, and vast appropriations for construction of adequate storage facilities. The House has already passed a bill to discourage heavy 1949 plantings of wheat, corn, cotton and rice; and a bill has just met approval to grant several more millions for price-propping this season's crops. The recent price drop was especially embarrassing to our own representatives at the International Wheat Conference who have been plugging for a $2 floor for the first year of a proposed five-year pact.



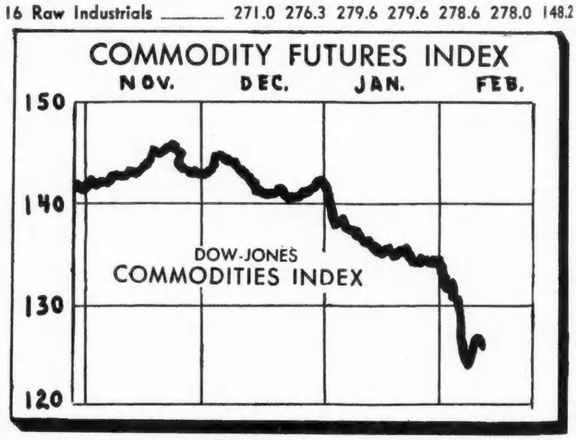
U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Feb. 14	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	273.6	283.1	289.9	307.1	316.9	321.3	156.9
11 Imported Commodities	256.7	265.1	270.6	279.7	285.5	283.6	157.3
17 Domestic Commodities	285.2	295.0	304.0	326.2	339.0	348.2	156.6
7 Domestic Agriculture	291.1	300.3	307.6	316.8	354.8	355.4	163.9
12 Foodstuffs	288.7	303.4	313.0	349.5	383.7	388.1	169.2
16 Raw Industrials	271.0	276.3	279.6	279.6	278.6	278.0	148.2



14 Raw Materials, 1923-25 Average equals 100
Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	157.8	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	124.48	139.83	117.14	93.90	55.45	46.59	45.03	52.03

Profits Produce Jobs and Goods At Johns-Manville

IN 1948—the 90th anniversary year of our business—Johns-Manville sold \$173½ million of goods to the industries and the public of the United States, Canada and other countries.

The company made a profit of \$15½ million. Both sales and profits were the highest in our history.

The average J-M employee received about \$3,300 in 1948 as compared with about \$1,700 in pre-war year 1940—nearly twice as much.

Higher Payrolls

Payrolls in 1948 amounted to \$66 million or 38 cents in each dollar of sales compared with \$20¼ million in 1940 or 32⅕ cents.

8,000 New Jobs

We had 8,000 more employees in 1948 than in 1940 bringing total employment to 20,000 men and women. American capitalism made these new jobs possible.

Capital Investment Doubled

Much of the difference in sales, payroll and profits since 1940 is due to capital invested.

Since V-J Day, Johns-Manville has spent more than \$50 million on new plants and other expansion projects, improvements and cost reduction measures. In the last ten years we have doubled our capital invested in the business. Our capacity to produce has been greatly increased.

This capital came in part from the 11,800 stockholders from all walks of life who have invested their savings in Johns-Manville; in part from depreciation; in part from money borrowed from insurance companies (representing savings of the people invested in insurance policies), and in part from profits put back into the business.

Profits are Necessary

Profits in 1948 amounted to 8⁹⁄₁₀ cents in each dollar of sales. In 1940 they were 9½ cents in each dollar of sales.

Profits provide dividends. Dividends help create savings. Savings and industry's profit dollars reinvested in plants and equipment produce new jobs as well as more goods.

In 1948 Johns-Manville invested about three-fifths of its profits to create more jobs in the company and to produce more goods needed by industry and the public.

That's why adequate profits—the cake of yeast necessary to make a capitalistic loaf of bread—are so important to the present and future stability of the country and to every man, woman and child in it.

Stockholders Benefit

For 1940 stockholders received \$2¾ million in dividends—about 48% of earnings. For 1948 they received \$6 million which was 39% of earnings.

Thus plowed-back earnings, like good fertilizer on good soil, create enlarged crops of new jobs for new generations of workers, more goods for industry and the public and more dividends for stockholders.

Taxes

In 1940 Johns-Manville's taxes were \$4¾ million. In 1948 they were \$12¾ million.

J-M's Annual Statement

Here are the highlights of Johns-Manville's annual statement for the year 1948:*

TOTAL INCOME	\$173½ million
For all costs (except as shown below)	\$ 79¼ million
To employees for salaries & wages	\$ 66 million
To government for taxes	\$ 12¾ million
To stockholders in dividends	\$ 6 million
Reinvested in the business	\$ 9½ million

EARNINGS AFTER TAXES were \$5.22 per share of common stock.

TAXES were equivalent to \$4.35 per share of common stock.

• • •

We in Johns-Manville are proud of our record of service to the public during our 90 years in business. We pledge our every effort to continue to be alert to the needs of our customers, our employees and our stockholders.

Lewis H. Brown
Chairman of the Board
Johns-Manville Corporation

**Those desiring more complete information should refer to a booklet containing the formal Annual Report to Stockholders which we will be glad to furnish on request. Address: Johns-Manville Corporation, 22 East 40th Street, New York 16, N. Y.*

JOHNS-MANVILLE JM PRODUCTS

What's Ahead for the Electrical Industry?

(*Continued from page* 572)

is to study how ample a cushion last year's high earnings provide for a normally lower level, and the relationship of dividends to this factor.

Strong support in assuming that manufacturers of heavy electrical equipment will have a good year in 1949 is furnished by the $6 billion expansion program of the public utilities. In 1948, some $1.5 billion was spent by this group and during 1949-51 outlays are expected to total as much as $5 billion. Aside from this, additional orders are sure to flow in if Congress approves construction of some of the huge power projects urged by the Administration. Considering these clearly marked potentials, it is hard to conceive anything but well sustained and ample volume for this division during several years to come. The relatively small number of properly equipped and experienced concerns able to handle this class of business tends to limit competition considerably. They should also benefit in the current year from expanded facilities that now are greatly shortening delivery dates from a matter of two years formerly to 10 months or so. This factor should help to bolster sales in 1949 and benefit profit margins.

Heavy Equipment

Whether or not over-all volume of top ranking producers of heavy equipment will remain fairly stable, though, is another matter. Their total output embraces a long line of household appliances in which competition has become severe. A continuous outflow of newly designed and more efficient products, firmly established reputation and ample resources to double promotional outlays if necessary, should work in their favor. These should aid in overcoming consumer price resistance that is becoming increasingly expressive. Aside from the usual run of appliances, furthermore, both General Electric and Westinghouse are prominent in the field of television, the development of aviation and atomic energy, besides being strongly entrenched in radio.

While it is now possible to step into any store and walk out with any one of a dozen kinds of appliances, normal replacement demand should remain huge under current conditions. Manufacturers of refrigerators, for example, anticipate reduced sales in the current year, but foresee a normal annual market for about 3.5 million units, with increasing consumer preference for larger sizes. Home freezers, a postwar baby, have made surprising strides in popularity, with production increasing to 500,000 units last year and no sign of market saturation. Demand for electric ranges continues exceptionally strong and the same is true of dishwashers and water heaters. It is said that one large producer of these three items has a backlog that will warrant weekly output of 12,000 ranges, 5,000 water heaters and 2,000 dishwashers throughout the first half year.

Current Downtrends

Now that pent-up demand for washing machines has been amply satisfied, sales of these units have trended sharply downward. December factory sales of vacuum cleaners, also, were 26.5% lower than a year earlier but total 1948 sales involved more than 3.3 million units, about three times the average for nine postwar years. The comparisons are significant as evidence that practically all classes of appliances, while experiencing reduced demand, will probably hit a relatively stable level far above prewar. More reliable clues as to its height are likely to be revealed by sales in the second half year. In the final analysis, it could develop that postwar boom enthusiasm has pushed capacity for most appliances at least 25% above normal demand, if not more. According to some opinions, when the current pressure for refrigerators subsides, capacity may prove excessive by as much as 50%.

One factor that may temper such pessimistic estimates is a record promotional drive planned by the Edison Electric Institute. In behalf of about 250 utility concerns comprising its membership, this organization has started a large advertising campaign to stimulate the electrification of kitchens. The Institute hopes to open up prodigious appliance markets as yet untapped, indeed so large that its exploitation could increase power revenues of the utilities by as much as $2.3 billion annually. The retail value of appliances possibly required in the program would be three times the industry's 1948 volume with home owners.

While the goal established perhaps won't be reached, and perhaps not by a wide margin, the campaign may prove highly beneficial to appliance manufacturers as it will be carried on locally by utilities throughout the country. The need for adequate wiring will be stressed, and sales of ranges, washers, toasters, refrigerators, vacuum cleaners and laundry equipment promoted on extensive scale. The potential advantages to the appliance industry created by this nationwide program are obvious.

As makers of electrical equipment start 1949, they are bracing themselves for intensified competition as never before. On all sides complaints are heard about reduced volume caused by the reimposition of Regulation W. This curb upon customer credit undoubtedly has caused a decline in demand but is unlikely to be removed in the near future. Then retailers of every description, in view of current uncertainties, are holding back order placements on a broad scale in order to learn more about both demand and price trends. This will make for a healthy reduction of pipeline inventories and seasonal spring demand may soon reverse the trend, but to what extent remains to be seen. Temporarily, though, manufacturer's sales may suffer somewhat from this factor.

Production cuts by many electrical appliance manufacturers have already been announced and more are certain to follow. How effective such steps will be from the angle of profit margins will altogether depend upon the ability of individual concerns to keep their break-even points flexible. Signs of caution in this respect are becoming clear.

Take the case of Noma Electric Corporation, for example. This concern's net earnings expanded more than eightfold to $4.39 per share in fiscal 1948, and quarterly dividends were moderately lifted to 37½ cents per share. A 3% stock dividend, though, has just been declared in lieu of cash for the current period. We cite this as typical of what may happen in other directions as 1949 unfolds. Noma, like some of its competi-

tors, plans to reduce prices on its merchandise before long as a strategic move, and must rely upon oprating economies rather than lower costs of materials and wages to bridge the gap. As the company is borrowing rather heavily to carry present inventories, a further incentive to conservative dividend policies is presented.

In contrast, however, McGraw Electric Company, enjoying an exceptionally strong trade position, confidently raised its quarterly dividend rate in January to 75 cents per share compared with 50 cents formerly. These instances show what slim reliance can be placed upon generalities in discussing the industry, and what variations in policy must be expected.

By and large, shares in the electrical products industry are now selling close to their lows since 1947, regardless of quality or medium term volume potentials. Exceptions to this rule, though, will be noted by reference to the appended table. Considering the widespread ample coverage of earnings over dividends, prices for carefully selected shares appear to have liberally discounted the leaner times now shaping up. Generally speaking, leading manufacturers broadly diversified and with substantial backlogs of heavy equipment orders such as General Electric and Westinghouse Electric probably offer the best prospects though some of the strongly situated smaller concerns such as McGraw Electric and Square D also have speculative appeal.

1949 Prospects for Farm Equipments

(Continued from page 577)

disadvantage has now been eliminated and promising world markets can be exploited. Hay racks and certain types of disk harrows, on the other hand, have reached a highly competitive point where selling expenses will mount.

The rapid and substantial increase of farm equipment in the hands of users will tend to stabilize the business of its producers in more than one way. Of chief significance will be a steadily larger demand for replacement parts on which profit margins are wider than on original equipment. Manufacturers as a rule can count on at least 15% of volume to consist of parts sales and this percentage should increase in years when demand for complete units tends to shrink. As time goes on, too, demand for parts automatically accumulates at a rate relative to the total number of implements sold in recent years by a given manufacturer. Many farmers are inclined to be casual in their treatment of farm implements, aside from ordinary wear and tear, often leaving them exposed to the weather or entrusting them to inexperienced helpers. Also, successful experience of one farmer with mechanized equipment stimulates new orders from neighbors who have been laggard in acquiring efficient implements.

Among possible handicaps that the industry may experience in 1949, is the possibility of the need for price revision. Last year the leading concerns lifted prices all along the line, but with the return of highly competitive conditions these policies may have to be modified. For one thing the farmers have seen prices for commodities tumble and rather naturally may look for lower price tags on equipment they plan to buy. They are constitutionally such innate "horse traders," that many of them may defer their purchases with the expectation of achieving economies. Interim sales reports of the leading manufacturers, however, must be awaited to determine the possible influence of this psychological factor. As equipment producers are unlikely to benefit this year from lower prices for metals or from a lower wage level, in fact may experience a rising trend in the latter, only the impact of severe competition could probably lead to price reductions. If sales continue at boom levels, though, some well situated concerns might find it possible to lower prices moderately without seriously impairing profit margins.

On the appended table we list nine leaders in the farm equipment industry showing earnings in fiscal 1947 and 1948, dividends paid last year, yields, price-earnings ratios and share prices. In every case dollar earnings advanced sharply last year as a result of record sales, smoother operations, more ample materials supply and an insatiable product demand. Dividends were noticeably conservative because of heavy working capital requirements to carry large inventories and to finance improvement programs. The industry has embarked on an expansion and modernization program involving about $300 million, much of which has now been completed. But chances for increased dividend liberality will vary from concern to concern according to progress made in this direction.

Another factor bearing upon dividend potentials is the possibility that a return to installment selling may gradually increase working capital needs. In prewar the industry normally carried huge amounts of time paper but in recent years has been able to rely upon a very large proportion of cash sales, both to dealers and to farmers. Any trend towards increased use of credit, though, will be moderated by the current widespread abilty of customers to take advantage of cash discounts, at least for some time to come. For the most part, concerns in this field have fully financed their postwar programs, and once completed could afford to pay larger dividends after the 1949 outlook becomes more clear. Despite satisfactory earnings, on the other hand, some concerns may be forced to finance capital needs, in which case their dividends probably will remain at current conservative levels.

Equities in the agricultural implement group have rather closely followed the downward price pattern of the general stock market. In other words, most shares in this division have declined about 20% from their 1948-49 highs and at present are selling close to their lows for the period, and at very modest price-earnings ratios. The degree to which existing uncertainties have been liberally discounted place shares of selected concerns in a rather favorable position from the standpoint of long term appreciation potentials.

For Profit and Income

(Continued from page 579)

dustrial demand for electricity more than modestly, and this business, now approximating 29% of the gross revenue of operating utilities, is handled on the lowest rates. Since commercial demand is highly stable, and the residential load is rising, total gross will be up again this year, perhaps by somewhere around 8% or 9%. Costs have

A neighborly property insurance company reports *to the Public:*

WEBSTER defines "neighbor" as one who lives nearby; is associated with others on friendly terms.

By that definition, The Home is truly a neighborly property insurance company. Through its forty thousand representatives, The Home lives in and serves cities, towns and hamlets in every state of the Union.

To countless property owners, The Home is personified by the hard-working representative who takes an interest in their problems and their protection—the man who lives down the street, who serves on civic committees, the man who brings prompt financial relief to policyholders when disaster strikes. That is The Home, in its most fundamental sense.

Now, more than ever, The Home is a "grass roots" company. Ten fire-marine insurance companies which were previous affiliates, last year were merged into The Home. The balance sheet shown is the first complete one issued by the enlarged Home organization. This is rightly of interest to the public, because The Home is by far the leading insurance protector of American homes and the homes of American industry.

Harold V. Smith
PRESIDENT

Directors

LEWIS L. CLARKE
Banker

CHARLES G. MEYER
The Cord Meyer Company

WILLIAM L. DEBOST
Chairman, Union Dime Savings Bank

EDWIN A. BAYLES
Lawyer

ROBERT GOELET
Real Estate

GEORGE MCANENY
Vice Chairman, Wills & Trust Committee, Title Guarantee & Trust Co.

GUY CARY
Lawyer

HAROLD V. SMITH
President

HARVEY D. GIBSON
President, Manufacturers Trust Company

FREDERICK B. ADAMS
Chairman of Executive Committee, Atlantic Coast Line Railroad Co.

ROBERT W. DOWLING
President, City Investing Co.

GEORGE GUND
President, Cleveland Trust Co.

HAROLD H. HELM
President, Chemical Bank & Trust Co.

CHARLES A. LOUGHIN
Vice President & General Counsel

IVAN ESCOTT
Vice President

C. STEVENSON NEWHALL
Chairman of Board, Pennsylvania Co. of Philadelphia

PERCY C. MADEIRA, JR.
President, Land Title Bank & Trust Co.

EARL G. HARRISON
Lawyer

JOHN A. STEVENSON
President, Penn Mutual Life Ins. Co.

CHAMPION MCDOWELL DAVIS
President, Atlantic Coast Line Railroad Co.

WARREN S. JOHNSON
President, Peoples Savings Bank & Trust Co. of Wilmington, N. C.

ROGER W. BABSON
Chairman of Board, Babson's Reports, Inc.

ROBERT B. MEYER
The Cord Meyer Company

HENRY C. BRUNIE
President, Empire Trust Company

HARBIN K. PARK
President & Director, First National Bank of Columbus, Georgia

BOYKIN C. WRIGHT
Lawyer

Balance Sheet *December 31, 1948*

ADMITTED ASSETS		
Cash in Office, Banks and Trust Companies		$ 31,027,607.07
United States Government Bonds		107,440,297.48
Other Bonds and Stocks		122,046,607.25
Investment in Associated Company		6,871,511.16
First Mortgage Loans		3,126.58
Real Estate		4,330,868.09
Agents' Balances, Less Than 90 Days Due		10,811,751.20
Reinsurance Recoverable on Paid Losses		706,975.90
Other Admitted Assets		2,006,693.37
Total Admitted Assets		$285,245,438.10
LIABILITIES		
Reserve for Unearned Premiums		$141,729,267.00
Reserve for Losses		33,879,862.00
Reserve for Taxes		9,000,000.00
Liabilities Under Contracts with War Shipping Administration		2,888,128.21
Reinsurance Reserves		1,493,633.18
Other Liabilities		2,417,432.63
Total Liabilities Except Capital		$191,408,323.02
Capital	$20,013,595.49	
Surplus	73,823,519.59	
Surplus as Regards Policyholders		93,837,115.08
Total		$285,245,438.10

NOTES: Bonds carried at $8,143,395.33 Amortized Value and Cash $80,000.00 in the above balance sheet are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners. Assets and Liabilities in Canada and Jamaica, B.W.I. have been adjusted to the basis of the free rate of exchange. Based on December 31, 1948 market quotations for all bonds and stocks owned, the Total Admitted Assets would be increased to $285,403,703.37 and the policyholders' surplus to $93,995,380.35.

PROPERTY INSURANCE

☆ THE HOME ☆
Insurance Company

Home Office: 59 Maiden Lane, New York 8, N. Y.

FIRE · MARINE AUTOMOBILE

The Home Indemnity Company, an affiliate, writes Casualty Insurance, Fidelity and Surety Bonds.

tors, plans to reduce prices on its merchandise before long as a strategic move, and must rely upon oprating economies rather than lower costs of materials and wages to bridge the gap. As the company is borrowing rather heavily to carry present inventories, a further incentive to conservative dividend policies is presented.

In contrast, however, McGraw Electric Company, enjoying an exceptionally strong trade position, confidently raised its quarterly dividend rate in January to 75 cents per share compared with 50 cents formerly. These instances show what slim reliance can be placed upon generalities in discussing the industry, and what variations in policy must be expected.

By and large, shares in the electrical products industry are now selling close to their lows since 1947, regardless of quality or medium term volume potentials. Exceptions to this rule, though, will be noted by reference to the appended table. Considering the widespread ample coverage of earnings over dividends, prices for carefully selected shares appear to have liberally discounted the leaner times now shaping up. Generally speaking, leading manufacturers broadly diversified and with substantial backlogs of heavy equipment orders such as General Electric and Westinghouse Electric probably offer the best prospects though some of the strongly situated smaller concerns such as McGraw Electric and Square D also have speculative appeal.

1949 Prospects for Farm Equipments

(*Continued from page* 577)

disadvantage has now been eliminated and promising world markets can be exploited. Hay racks and certain types of disk harrows, on the other hand, have reached a highly competitive point where selling expenses will mount.

The rapid and substantial increase of farm equipment in the hands of users will tend to stabilize the business of its producers in more than one way. Of chief significance will be a steadily larger demand for replacement parts on which profit margins are wider than on original equipment. Manufacturers as a rule can count on at least 15% of volume to consist of parts sales and this percentage should increase in years when demand for complete units tends to shrink. As time goes on, too, demand for parts automatically accumulates at a rate relative to the total number of implements sold in recent years by a given manufacturer. Many farmers are inclined to be casual in their treatment of farm implements, aside from ordinary wear and tear, often leaving them exposed to the weather or entrusting them to inexperienced helpers. Also, successful experience of one farmer with mechanized equipment stimulates new orders from neighbors who have been laggard in acquiring efficient implements.

Among possible handicaps that the industry may experience in 1949, is the possibility of the need for price revision. Last year the leading concerns lifted prices all along the line, but with the return of highly competitive conditions these policies may have to be modified. For one thing the farmers have seen prices for commodities tumble and rather naturally may look for lower price tags on equipment they plan to buy. They are constitutionally such innate "horse traders," that many of them may defer their purchases with the expectation of achieving economies. Interim sales reports of the leading manufacturers, however, must be awaited to determine the possible influence of this psychological factor. As equipment producers are unlikely to benefit this year from lower prices for metals or from a lower wage level, in fact may experience a rising trend in the latter, only the impact of severe competition could probably lead to price reductions. If sales continue at boom levels, though, some well situated concerns might find it possible to lower prices moderately without seriously impairing profit margins.

On the appended table we list nine leaders in the farm equipment industry showing earnings in fiscal 1947 and 1948, dividends paid last year, yields, price-earnings ratios and share prices. In every case dollar earnings advanced sharply last year as a result of record sales, smoother operations, more ample materials supply and an insatiable product demand. Dividends were noticeably conservative because of heavy working capital requirements to carry large inventories and to finance improvement programs. The industry has embarked on an expansion and modernization program involving about $300 million, much of which has now been completed. But chances for increased dividend liberality will vary from concern to concern according to progress made in this direction.

Another factor bearing upon dividend potentials is the possibility that a return to installment selling may gradually increase working capital needs. In prewar the industry normally carried huge amounts of time paper but in recent years has been able to rely upon a very large proportion of cash sales, both to dealers and to farmers. Any trend towards increased use of credit, though, will be moderated by the current widespread abilty of customers to take advantage of cash discounts, at least for some time to come. For the most part, concerns in this field have fully financed their postwar programs, and once completed could afford to pay larger dividends after the 1949 outlook becomes more clear. Despite satisfactory earnings, on the other hand, some concerns may be forced to finance capital needs, in which case their dividends probably will remain at current conservative levels.

Equities in the agricultural implement group have rather closely followed the downward price pattern of the general stock market. In other words, most shares in this division have declined about 20% from their 1948-49 highs and at present are selling close to their lows for the period, and at very modest price-earnings ratios. The degree to which existing uncertainties have been liberally discounted place shares of selected concerns in a rather favorable position from the standpoint of long term appreciation potentials.

For Profit and Income

(*Continued from page* 579)

dustrial demand for electricity more than modestly, and this business, now approximating 29% of the gross revenue of operating utilities, is handled on the lowest rates. Since commercial demand is highly stable, and the residential load is rising, total gross will be up again this year, perhaps by somewhere around 8% or 9%. Costs have

A neighborly property insurance company reports to the Public:

WEBSTER defines "neighbor" as one who lives nearby; is associated with others on friendly terms.

By that definition, The Home is truly a neighborly property insurance company. Through its forty thousand representatives, The Home lives in and serves cities, towns and hamlets in every state of the Union.

To countless property owners, The Home is personified by the hard-working representative who takes an interest in their problems and their protection—the man who lives down the street, who serves on civic committees, the man who brings prompt financial relief to policyholders when disaster strikes. That is The Home, in its most fundamental sense.

Now, more than ever, The Home is a "grass roots" company. Ten fire-marine insurance companies which were previous affiliates, last year were merged into The Home. The balance sheet shown is the first complete one issued by the enlarged Home organization. This is rightly of interest to the public, because The Home is by far the leading insurance protector of American homes and the homes of American industry.

PRESIDENT

Balance Sheet *December 31, 1948*

ADMITTED ASSETS		
Cash in Office, Banks and Trust Companies		$ 31,027,607.07
United States Government Bonds		107,440,297.48
Other Bonds and Stocks		122,046,607.25
Investment in Associated Company		6,871,511.16
First Mortgage Loans		3,126.58
Real Estate		4,330,868.09
Agents' Balances, Less Than 90 Days Due		10,811,751.20
Reinsurance Recoverable on Paid Losses		706,975.90
Other Admitted Assets		2,006,693.37
Total Admitted Assets		$285,245,438.10
LIABILITIES		
Reserve for Unearned Premiums		$141,729,267.00
Reserve for Losses		33,879,862.00
Reserve for Taxes		9,000,000.00
Liabilities Under Contracts with War Shipping Administration		2,888,128.21
Reinsurance Reserves		1,493,633.18
Other Liabilities		2,417,432.63
Total Liabilities Except Capital		$191,408,323.02
Capital	$20,013,595.49	
Surplus	73,823,519.59	
Surplus as Regards Policyholders		**93,837,115.08**
Total		$285,245,438.10

Directors

LEWIS L. CLARKE
Banker

CHARLES G. MEYER
The Cord Meyer Company

WILLIAM L. DEBOST
Chairman, Union Dime Savings Bank

EDWIN A. BAYLES
Lawyer

ROBERT GOELET
Real Estate

GEORGE MCANENY
Vice Chairman, Wills & Trust Committee, Title Guarantee & Trust Co.

GUY CARY
Lawyer

HAROLD V. SMITH
President

HARVEY D. GIBSON
President, Manufacturers Trust Company

FREDERICK B. ADAMS
Chairman of Executive Committee, Atlantic Coast Line Railroad Co.

ROBERT W. DOWLING
President, City Investing Co.

GEORGE GUND
President, Cleveland Trust Co.

HAROLD H. HELM
President, Chemical Bank & Trust Co.

CHARLES A. LOUGHIN
Vice President & General Counsel

IVAN ESCOTT
Vice President

C. STEVENSON NEWHALL
Chairman of Board, Pennsylvania Co. of Philadelphia

PERCY C. MADEIRA, JR.
President, Land Title Bank & Trust Co.

EARL G. HARRISON
Lawyer

JOHN A. STEVENSON
President, Penn Mutual Life Ins. Co.

CHAMPION MCDOWELL DAVIS
President, Atlantic Coast Line Railroad Co.

WARREN S. JOHNSON
President, Peoples Savings Bank & Trust Co. of Wilmington, N. C.

ROGER W. BABSON
Chairman of Board, Babson's Reports, Inc.

ROBERT B. MEYER
The Cord Meyer Company

HENRY C. BRUNIE
President, Empire Trust Company

HARBIN K. PARK
President & Director, First National Bank of Columbus, Georgia

BOYKIN C. WRIGHT
Lawyer

NOTES: Bonds carried at $8,143,395.33 Amortized Value and Cash $80,000.00 in the above balance sheet are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners. Assets and Liabilities in Canada and Jamaica, B.W.I. have been adjusted to the basis of the free rate of exchange. Based on December 31, 1948 market quotations for all bonds and stocks owned, the Total Admitted Assets would be increased to $285,403,703.37 and the policyholders' surplus to $93,995,380.35.

PROPERTY INSURANCE

☆ THE HOME ☆
Insurance Company

Home Office: 59 Maiden Lane, New York 8, N. Y.

FIRE · MARINE AUTOMOBILE

The Home Indemnity Company, an affiliate, writes Casualty Insurance, Fidelity and Surety Bonds.

begun to move down, as fuel prices are shaved and much efficient new generating capacity comes into use. Share earnings should be very close to last year's good levels even if corporate taxes are moderately raised; above last year's if there is no tax boost. Thus, there are solid reasons for the relatively good market action of utility stocks. Potentialities for percentage advance are moderate, but income returns are generally attractive and the group is likely to hold up much better than the general list in the event of any further market softness.

Trouble

Profits in low-wage industries, especially in the South, will be hurt materially if Congress establishes a statutory 75-cent an hour minimum wage. This consideration accounts for the recent liquidation seen in the shares of S. H. Kress, a large percentage of whose variety stores are located in the South. The potential vulnerability of other leading variety chains appears considerably less, but they are not immune. The issue of what minimum wages are going to be will be open for some time; and will be a restrictive factor weighing more or less on variety-chain stocks.

Rail Equipments — Earnings vs. Sales

(*Continued from page* 575)

roads take prompt steps to assure its certain use. Pressure of this kind provides powerful ammunition and is likely to prove effective, despite the handicap experienced by the ODT in dealing with 131 different carriers in the Class I group. The roads are conscious that unless they "play ball" with the Federal authorities, Washington may find it necessary to establish a freight car pool of its own, a radical step towards nationalization.

All considered, the medium term outlook for the contract car builders warrants confidence in substantial activity. The basic difficulty of the industry rests upon its cumbersome size, overcapacity and exposure to sudden shifts in demand. The type of machinery required is expensive and highly specialized, thus restricting its use for diversified output. As overhead is heavy, satisfactory profit margins depend importantly on well sustained and ample volume. Competition is also keen in this field and is likely to become increasingly so during 1949. Wage costs generally follow the pattern established in the steel industry. In many respects, however, the railroad car building industry resembles the sprawling aircraft group in its importance to national security and its dependence upon stable operations to function successfully. Under the circumstances, it is a reasonable assumption that by one means or another Washington will see to it that car builders receive enough orders to warrant mass production on an uninterrupted scale for a reasonable period ahead, though a little time may be needed to implement the program.

How successfully the industry can operate under favorable conditions is well shown by the almost uniform earnings gains achieved by its leading components in 1948. Among the car builders, an exception in this respect was Pressed Steel Car Company which probably incurred a slight deficit in contrast to a net of 97 cents per share in 1947. This concern's margins were hard pinched by costs and an unprofitable venture into the manufacture of steel ranges. But the range division was recently sold to Admiral Corporation and 1949 earnings will benefit by carry-forward tax credits. American Car & Foundry, on the other hand, found diversification profitable. Its carburetor division last year supplied much of the needs of the automobile industry while good cost controls enabled it to make satisfactory profits on a record amount of car-building. 1948 net per share of this well established unit should be around $6.50 compared with $3.47 in the previous year.

Future Order Outlook

Over the longer term, carbuilders are apt to enjoy an increasing inflow of orders for new *passenger car* equipment. The railroads have embarked upon the most ambitious program in history to modernize their passenger service as a challenge to heightened competition from other forms of transportation. The nation's passenger car fleet numbers about 35,000 coaches and 9,000 sleeping cars, the majority of which have been on the rails for many years. While greatly improved designs and efficiency of postwar models have proved their value beyond all expectations, high original costs have delayed very sizable orders for replacements, though many roads have made substantial progress in this direction. As of December 1, unfilled orders for passenger cars amounted to 2,008 units, a seemingly small number but they cost up to twenty times as much as freight cars.

Profit Handicaps

Manufacturers of modern passenger cars in postwar have generally found the business unprofitable or even a drag on their other operations. Specifications have been rigid and mass production impossible due to a discouraging variation in design. It is said that on the first 1,000 passenger cars ordered from Pullman-Standard, the company had to contend with different plans for about each batch of five. Such handicaps preclude economical production and involve long delays in delivery. It is estimated that about two years will elapse before all of the 2,000 passenger cars under order roll out of the shops. Both the railroads and their suppliers, though, have learned a costly lesson from this haphazard and custom - made method; some revisions in policies are indicated for the current year.

One thing that appears certain is that despite competition many of the leading manufacturers are going to refuse new orders unless they can be profitably handled; this points to sharply advanced prices, escalator clauses or cost-plus contracts, unless a greater degree of standardization is achieved. The railroads could save immense sums if they were willing to rebuild their passenger car fleets on standard designs, but each one now insists on minor variations in plans that have no bearing at all upon operating revenues. Sensible and constructive as standardization would be, it seems unlikely that it can be achieved rapidly. Some car manufacturers, though, have started to name one price for their own standard designs and a sharply higher one if the customer insists on variations. Such policies, if consistent, should prove effective and eventually enhance profit po-

tentials for the manufacturers and railroads alike.

Among producers of passenger cars overly burdened with high costs has been Pullman-Standard. This concern built 457 passenger cars in 1948, about twice as many as its two largest competitors combined, but has only recently succeeded in breaking even on this class of business. Henceforth Pullman is determined to make a reasonable profit without having to lean on satisfactory earnings from its freight car division. Backlog orders of more than $300 million have been priced accordingly. Earnings of the parent company, Pullman, Inc., rose to an estimated $3 per share in 1948, up about 25%, partly due to record production of freight cars but also from increased earnings of its engineering subsidiary, the Kellog Company. Net earnings of Budd Company, which produced 200 stainless steel cars last year and is a major supplier of automobile bodies and wheels as well, advanced nearly 200%. Heavy backlog orders of this company foreshadow another very satisfactory year in 1949.

Locomotive Builder

Locomotive manufacturers confidently foresee another profitable year in 1949. The now well proven efficiency of Diesel locomotives, either for long distance hauls or for switching, has created a heavy demand not likely to diminish in the foreseeable future. Production of railroad Diesels last year established an all-time record of about 1,370 units, but as of December 1 backlog orders had risen to 1,615. With materials in improved supply and operating efficiency on the upgrade, locomotive builders can probably liquidate this backlog in about ten months, although incoming orders may amply restore or even expand it. Operating economies achieved by the railroads through use of modern Diesel locomotives in every branch of service have been so outstanding that orders for steam haulers have almost reached the vanishing stage. Deliveries of steam locomotives to the Class I railroads last year amounted to only about 55 units.

Since there are about 32,000 steam locomotives still in use, it seems obvious that the railroads have every incentive to replace them by Diesels as soon as practical. This will involve very heavy expense, however, and the process may be slowed by the reluctance of the roads to lose substantial revenues from coal traffic. Coal is the largest single revenue producing commodity handled by the railroads, and installations of Diesels in 1948 displaced about 10 million tons of coal used for railroad fuel. As much again coal traffic will be lost in 1949, intensifying this problem for the carriers. But last year, Diesels were performing more than 33% of all switching operations, nearly 38% of passenger hauls and 20% of freight traffic.

Development of Diesel locomotives was initiated by General Motors' subsidiary, Electro-Motive Corporation, still the dominant factor in the field. American Locomotive Company about a year ago suspended steam locomotive construction and presently gets a substantial share of Diesel business. Baldwin, Lima-Hamilton and Fairbanks Morse are also well situated to compete for Diesel locomotive orders. Provided annual orders in this special field average about 1,000

units as is strongly indicated, there should be ample room for all of these concerns to enjoy high level activities. Aside from domestic business, foreign orders from ECA countries and other sources strengthen sales potentials for the group.

Fair prospects that railroad revenues may increase in 1949 brighten the outlook for the makers of *parts and accessories* such as brakes, bearings, wheels, signaling equipment and track accessories. The requirement of the ICC that all freight cars in interchange service must be equipped with AB brakes has been extended to 1950 and during near term years, 45,000 miles of through rail lines must be supplied with automatic block signals. Such companies as Westinghouse Air Brake, New York Air Brake and American Brake Shoe benefitted substantially from increased volume last year and should hold their gains readily in in the current year. The same holds true of specialists like General Railway Signal and Poor & Company, the latter renowned for its development of anti - rail creepers now widely used.

The two leading operators of leased car fleets, General American Transportation and Union Tank Car Company, have always enjoyed a substantial degree of stability in their operations and should continue to do so in the current year. Both companies have greatly expanded their fleets in recent years to meet the heavy demand for refrigerator and tank cars, along with a wide variety of other units. General American Transportation also contracts for large amounts of freight car construction, besides branching out into a number of other unrelated fields.

Market Action

From the appended table it will be noted that earnings in the rail equipment industry trended well upward in 1948, commonly covering dividends by ample margins. Inherent instability of earnings in this group, however, seldom permits liberal price - earnings ratios as a rule and invites caution in making commitments. Under current market conditions, most shares in this division are quoted close to their lows for 1948-49, thus are not without speculative appeal on any return to more propitious market conditions. Need for selectivity exists, however.

Business Spending As Economic Factor in 1949

(*Continued from page* 559)

business investments. There is evidence that a good many projects are being delayed pending congressional decision on taxes.

Apart from going easy on raising corporate taxes, encouragement to capital outlays could be given by less rigid depreciation regulations and, on the part of labor, by less opposition to technological progress. Doubtless great savings in operating costs are possible through continued substantial outlays for modernization of existing capacity which will bring lower selling prices and stimulation of consumer demand. But business must be given adequate incentive to make such investments.

As of today, indications are that spending by industry should continue to furnish a sturdy economic support despite growing business caution and the completion or tapering off of many postwar expansion programs but this evidence could be subject to quick revision. A number of corporations have already trimmed their spending sails to meet existing or feared business conditions and remaining projects must be considered tentative. Some are completing existing programs but holding off on new ones. Generally there is a tendency to gear spending to the business and profit outlook.

Among the freest spenders will probably be the utilities, natural gas companies, the oil industry and the railroads despite some announcements that high costs will be a deterrent. Utilities are reported to have firm spending budgets for the entire year calling for greatly increased outlays within the framework of their multi-billion long term expansion program. The railroads, too, have scheduled sizable spending programs but whether they will be fully completed appears less certain. The oil industry has become more cautious, what with threatening oversupply and a weakening price structure, and 1949 programs must be considered more tentative and subject to downward revision.

Even less stable is the situation among manufacturing companies generally, not only because many have already completed expansion plans or are rapidly reaching this point, but also because this group has been primarily affected either by a downturn in demand or by balanced demand-supply conditions. There are of course exceptions. The steel industry, for instance, is expected to go right ahead with expansion programs and the same holds true of nonferrous metal and mining companies. On the other hand the chemical industry is definitely tapering off, not only because of substantial completion of previous programs but doubtless also reflecting a more cautious appraisal of the business outlook.

Conclusions

To sum up, business spending this year potentially at least should continue large enough to remain a potent factor in the nation's economic health though the overall amount will almost certainly fall below that of 1948. But quite a number of "ifs" must be attached to this view. Spending programs this year are, in the vast majority of cases, far more tentative than last year, and subject to re-examination on basis of business conditions as they unfold during the months ahead. In the circumstances it is difficult if not impossible to project a definite amount of capital outlays. Future earnings and taxes will be vital determinants since industry is relying primarily on its own resources, largely profits and depreciation reserves, for new plant and equipment.

However, this doesn't imply that recessive business conditions would spell a complete collapse of plans for capital outlays. Conceivably they could spur the already distinct trend towards more efficient and up-to-date equipment to facilitate more efficient production and competitive selling under changed conditions, a factor that is apt to provide a substantial bulwark against too drastic a drop in business spending. In fact bigger sales of modern costsaving equipment are one of the hopes of the machinery industry for satisfactory volume during the current year.

A moderate decline in capital spending by business should find at least a partial offset in higher exports of capital goods, particularly under ECA, and in new capital goods requirements in fulfillment of the defense program as currently projected. On the

whole, then, existing potentialities in the capital goods sector are sufficiently substantial to prevent any weakening of our economic underpinnings. It is safe to say that there is much room and need for improvement in the nation's industrial plant and equipment, and business will not hesitate to make such outlays if there is adequate incentive to do so. Invariably this comes down to the business and profit outlook, both now increasingly questioned under the impact of deflationary developments and declining consumer buying.

The latter really is the key factor. Unlike on some former occasions, recessive tendencies this time have been developing almost exclusively at the consumer level — working upward, and not at the capital goods level — working downward. The conclusion is that consumer spending, not business spending, is the primary question mark at this juncture, though in time, of course, the latter will be decisively influenced by the former. Given overall prosperity based on active consumer demand and the prospect of economic stability at a fairly high level, industry's capital expenditures promise to continue high for a number of years. If not, they could taper off quickly and sharply.

Increasing International Competition in Foreign Trade

(*Continued from page* 565)

rise of costs more than others. High freight costs have been another element that has priced us out of many export markets — as for example in the case of coal.

An examination of the accompanying table is recommended. It shows prices (in a few cases export prices) in some 14 countries, adjusted for local currency changes, in terms of dollars, as reported in the Monthly Bulletin of the International Monetary Fund. It may be noted from the last two columns that the United States is still a relatively cheap country to buy from, though not as cheap as in 1946. Practically all European countries for which data are given are now in a better competitive position. So are Turkey, Mexico, and South Africa. No comparisons are available for Germany and Japan, but it is claimed that German costs, expressed in dollars, are still relatively low.

Still another development may be deduced from the last two columns of the above mentioned table. This is the narrowing spread in the price levels — adjusted for currenecy fluctuations — of leading commercial nations, a development partly due unquestionably to increasing international competition. At any rate, international competition will bear close watching in the future as a factor in the downward pressure on prices the world over. If prices in the United States should definitely turn downward, international competition may be expected to get far keener than it is today. In fact, this would be one way in which a wholesale currency readjustment — the pound sterling not excluded — could be brought about.

Investment Audit of Standard Brands

(*Continued from page* 570)

an advance of about 9 per cent in 1947 over 1946, may be explained by waning of inflationary forces. As a matter of fact, higher prices accounted for all of the 1947 increase of slightly more than $23 million in sales, inasmuch as about 14 per cent of 1947 sales represented price inflation.

Earnings have been in a declining trend since the 1946 peak, which was accomplished to some extent by appreciation of inventories in process of preparation and distribution as food products. Much of last year's poorer showing, as indicated previously, could be ascribed to necessity of absorbing losses in maintaining trade position in the malt division. Hence, had it not been for this situation, net profit might

have compared favorably with the $2.32 a share for 1947. Preliminary calculations indicated that the 1948 dividend of $2 a share was covered by a narrow margin.

In view of the necessity for increased promotional expense and the likelihood of narrower profit margins in some lines, management adopted a conservative financial course last month in reducing the dividend to 30 cents from the former quarterly rate of 50 cents. Indications appear promising for sufficient earnings to safeguard a $1.20 annual rate, and it is known that management is optimistic over benefits of economies in distribution that promise to become more tangible as the year progresses.

President Mitchell in a recent statement expressed hope for some improvement in 1949 earnings though "present uncertainties regarding commodity prices, corporate taxes, wage levels, as well as the need for increased expenditures for capital assets emphasize the importance of following a conservative dividend policy at this time." But he also added that consideration would be given to the payment of an extra dividend at the end of the current year, if increased earnings justified such action.

At present price of around $18\frac{3}{4}$, near the bottom of the 1948-49 price range of High $29\frac{1}{2}$, Low $17\frac{3}{8}$, the stock appears to have fairly well discounted the lower dividend and is appraising indicated earnings prospects rather cautiously. Even the lower dividend affords a yield of better than $6\frac{1}{2}$%, and that rate appears quite secure.

Companies Reporting Lower Earnings

(*Continued from page* 557)

million in the fiscal year ended November 21, 1948 was only $380,000 lower than the year before, but from a manufacturing viewpoint the year was about the worst in the company's history. Higher costs have evidently pushed break-even sales up to about $10.5 million, for even in 1947 when volume slightly exceeded this figure, only $67,725 was reported earned and a loss of $112,341 was incurred on slightly lower sales. Last year's sharp decline in hide prices undoubtedly occasioned inventory losses at a time when finished goods continued to pile up as a result of shrinking orders. Because of last year's experience, Spencer Shoe has closed its Belfast, Maine, plant permanently, concentrating production in other facilities in Marion, Indiana. A retail division is proving profitable but all in all, prospects do not appear overly encouraging for a relatively small company of this type.

Sales of Hercules Powder Company topped $129 million in 1948, second highest mark in its history. But profit margins were squeezed by the combined impact of lower prices, higher costs of wages and materials, along with sizeable outlays for research. Net earnings declined to $3.99 per share compared with $4.75 in 1947, a dip of about 15%. Export sales last year were reduced by some $3.4 million, though domestic demand for chemical materials of diverse character from the paint, paper, rayon and plastics industries held fairly steady. Sharply lower prices for naval stores products in which the company specializes, pinched margins considerably, due to substantial inventory markdowns and unprofitable sales.

In the face of these handicaps, some $3.9 million was spent for research alone in 1948. Since VJ-Day, Hercules Powder has spent about $40 million on expansion without borrowing and this program has now been virtually completed. In due course these large outlays should bear fruit and enhance the company's growth potentials over the medium term.

The management is cautious in predicting results for 1949, being aware that readjustments may tend to cause corporate earnings generally to decline somewhat, but is optimistic about the longer term outlook. It should be realized that earnings of this concern are still more than double the level achieved in war years and previously, and that they should be importantly stabilized by the large amount of plowed back earnings devoted to expanded facilities.

Which Increased Dividends Likely to Continue in 1949?

(*Continued from page* 567)

higher than formerly. This, though, does not preclude the chance that special dividends may be declared whenever deemed wise. The demand for pipe from the oil and natural gas industries has been, and still is, prodigious, far in excess of supply. Hence there is good reason to assume that the company's volume this year will at least equal that of 1948, when earnings probably reached $7.50 per share. Since $6.02 was reported for 1947, and dividends even now are held to a conservative basis, there is room for further liberality in due course. Confidence in the outlook by this concern, as evidenced by its advanced dividend declarations, is obvious and the method of expression has stirred up much favorable comment.

McGraw Electric

McGraw Electric Company sup-

plemented quarterly dividends of 50 cents last year with three extras of like amount at various times, bringing the total for the year to $3.50 per share, the same as in 1947. As a sign that this concern anticipates a successful year in 1949, the quarterly rate was lifted to 75 cents in January. Whether total payments will equal those of 1948 hinges on payment of extras, but only one of 50 cents rather than three will be needed to accomplish this. Manufacturers of household appliances generally face greatly intensified competition in 1949 and many are likely to experience reduced sales and earnings in consequence. McGraw Electric, though, has an exceptionally well entrenched trade position, due to the established popularity of its broad Toastmaster line. The company's progress this year should be satisfactory, even if volume and earnings should not wholly equal last year's results. Furthermore, finances are strong and the capital structure limited to a relatively small amount of one class shares. Compared with many other companies in postwar, dividend policies have been on the liberal side. Added up, these factors promise well sustained dividends.

In raising quarterly dividends to $1.25 per share this year from a previous level of $1, Youngstown Sheet & Tube Company was very conservative, to say the least. When the company earned $13.31 per share in 1947 it was considered quite a feat, but 1948 net is estimated around $16.50 per share which would cover 1948 dividends of $5 per share more than three times, including payment of a $1 year-end extra. Outlook for 1949 is exceptionally bright, with steel supply unlikely to balance with demand for some time to come. Efficient operations are assured by complete integration from ore and coal to finished products of numerous kinds. Earnings may easily warrant payment of another year-end extra that could bring the total to around $6 per share, but caution is suggested by planned outlays of $16 million for new plants in 1949, twice the amount spent last year for this purpose. Due to the wide margin of earnings, though, the prospects for stable dividends are much enhanced.

Another concern strongly marked with potentials for dividend continuity at a recently increased rate is American Smelt-

ing & Refining Company. While no regular dividend rate is employed, the January dividend of 75 cents compares with 50 cents paid in the first three periods of 1948, and a similar amount in November, although interim payments of $1.50 per share were made in September and $2 in December. Total distributions last year came to $5.50 per share, fairly modest in relation to estimated earnings of $11.75. As nonferrous metals, of which this concern is a leading producer, are still in short supply for numerous industries in urgent need for them, and the stepped up program to expand Government stockpiling tends to accentuate the scarcity, the 1949 outlook for this strongly situated concern is about all anyone could ask for. With no regularity of dividend dates or amounts, it is difficult to make definite predictions, but chances seem above-average that total payments this year will equal, if not exceed, those of 1948.

Many Declared Extras

In scanning the list of concerns on our table that have lately paid increased dividends, practically all for special reasons should continue their distributions at the advanced rate, unless coming months bring a more serious economic readjustment than now appears probable. The second equally impressive list of concerns that have started 1949 by paying extras, also attests to widespread confidence in the continuance of satisfactory conditions. As the year unfolds and the current economic complexities become better resolved, it seems probable that payment of extras rather than higher dividend rates should be expected where company positions warrant increased liberality.

The Trend of Events

(*Continued from page* 548)

hoards and the dollar supply of the world would be depleted.

It will be interesting to see whether, and if so to what extent, the Fund is willing to give ground on this basic question. At least it will insist on adequate safeguards, in the case of South Africa, to make sure that the gold is used for industrial, professional or artistic purposes and will not find its way into hoarders' hands.

As I See It!

(*Continued from page* 549)

public scandal.

The reason of course is that American industrial production is geared to the consumer while Russian production is concentrated on heavy industry and armaments. In the planned economy of the USSR, the great shortages of almost everything may fairly be termed planned shortages, the deliberate result of the Soviet Government's decision to minimize the resources devoted to improvement of the standard of living. Subjugation of Europe by Russia would reduce the workers there to the miserable living standards and degradation of Russian workers.

If we properly place these facts before the Soviet - dominated world, the Russian propaganda balloon about Soviet democracy is bound to burst into the faces of its perpetrators. But we can go further than that. We could hold out to these people the promise of our help in achieving better living standards and show them what they can gain if they cooperate with real democracy. Even in countries dominated by political terror, such a line of approach should eventually bear fruit.

We should present the facts of production in a free democracy, as opposed to the hobbled production in Soviet slavery, that enable us to create such a high standard of living for our people. We should show up the weaknesses of enforced labor in Russia, the deadening effect of bureaucracy under communism. In the long run, such a campaign should intensify opposition to Soviet policy everywhere where people can still think, and hope for a better future.

Answers To Inquiries

(*Continued from page* 581)

October 31, 1948, compared with $21,658,140 a year earlier. Virtually the entire backlog consists of so-called contract business. This includes both installations by the corporation and sales of larger equipment direct to users or their representatives. Practically all orders from distributors and dealers are now being handled on a current basis. During November and December, the first two months of the present fiscal year, $8,045,167 of orders were booked, as compared with $8,308,587 in the corresponding period of fiscal 1948. An initial dividend of 25 cents per share was paid on the common in October 1948, latest dividend of 25 cents per share is payable March 1, 1949.

Seasonal Pattern or Recession?

(*Continued from page* 554)

tures for long deferred improvements. Then there is the weight of business spending, likely to continue heavy; the bolstering effect of farm price supports on farm income, and of high wages and generally still high employment on overall consumer income. The growth of our population and the wider distribution of purchasing power that has taken place in recent years, additionally, should prove an effective cushion to any downtrend of business. This factor alone makes it somewhat difficult to judge just how vulnerable, or secure, our over-all business situation may be. Parallels with the past refer to times when the tempo was slower, our economic base narrower, and when many prominent political and economic forces now operating were absent.

Under the conditions prevailing today, against the backdrop of a gross national product of some $250 billion, of tremendous productive and consumptive capacity and steadily increasing industrial efficiency, one is inclined to hold that any kind of recession is likely to be limited. Conceivably the latest developments on the price front, though as yet chiefly restricted to farm commodities, will accentuate caution and thereby existing weaknesses in the business situation, but in the long run it will prove beneficial by assisting the trend towards lower living costs and prices, thus aiding readjustment.

To-date, readjustment has been severe for some, but healthy for the nation generally. Small firms, newcomers to the business scene, the financially weak, have naturally suffered more than strong, well-entrenched concerns, well-heeled financially and better able to stand competition, and this experience is likely to character-

ize the future adjustment process. Recessive trends in soft goods have to a marked degree been seasonal since demand-supply balance has already been achieved some time ago. The same can be said for certain types of consumer durables such as minor appliances, radios, etc., but less so for heavy durables and not at all for capital goods. One of current business fears is that recession may spread from soft goods into capital goods; if so there would obviously be nothing seasonal about it since capital goods demand is primarily cyclical. It would mean a turning point in the business cycle rather than a seasonal pattern.

At this writing, the situation is still very much in a state of flux but a definite test is in the offing. We can tell how things are shaping up by watching employment trends, retail sales and carloadings, all important basic barometers. We shall have to watch particularly the trend of steel production and the future course of steel markets for signs whether the business let-down is actually branching out to the capital goods field. As long as steel and nonferrous metal demand holds up, as long as the automobile industry can produce and sell the record number of cars scheduled for this year, there can be no real depression and the psychological slump now plaguing business may soon give way to a more optimistic attitude.

Above all, we shall have to watch the attitude and actions of Government, and how effective these actions will turn out to be. Should the Administration demand for controls and new business taxes be pared down, as now seems likely, or dropped altogether, this may well prove a key factor in coming months.

Watch Individual Issues Rather Than Market

(*Continued from page* 551)

says it is "dis-inflation" which is not likely to degenerate into deflation unless the people get jittery; his associate, Economist Clark, says that seasonal factors, including income tax payments, make accurate interpretation difficult at the moment, and that a better business test will be had in April-May; while Economist Keyserling, vice-chairman of the Council, stoutly maintains that inflationary forces are still strong and that the Administration should be given stand-by controls.

We disagree vigorously with Dr. Keyserling, and he does not seem to have impressed Congress, for the majority mood has clearly become quite cautious on taxes, controls and anything else which might contribute to business unsettlement. We think that the general views of Mr. Truman and Dr. Nourse are probably correct; but that the suggestion of Dr. Clark — which amounts to saying that one should not get too opinionated either way until business trends take clearer shape in coming weeks — is a sensible, practical one.

For ourselves, the test is awaited with reasonable confidence. So far nothing has happened to weaken our general view that the country is merely returning to more normal price relationships at an average price level far above prewar, to more normal levels of employment, to normal business competition. Our general investment policy, calling for maintenance of about 75% invested positions in typical accounts, and emphasizing selectivity, is unchanged.

—Monday, Feb. 21.

BOOK REVIEWS

THE COMING AGE OF WOOD

By Egon Glesinger

This is an optimistic book on the future of the World. Where practically every other writer has been a Cassandra, Dr. Egon Glesinger shows how we can confidently look forward to plenty, not to starvation; to superior housing, rather than shortages; to many more clothes rather than nakedness.

The facts are presented in a simple, direct fashion, and with the unimpeachable authority of a high official in the UN's Food and Agriculture Organization. He is in a position to know that through developments in forestry and wood industries now going on, the Coming Age of Wood will double the standard of living for the entire world. On the first page he says:

"It took me years to realize the importance of wood in our everyday life and the revolutionary role it would play in our future. Yet even today, when I ask people to tell me what wood contributes to their daily lives, their first reaction is an embarrassed silence, and when I talk about the Coming Age of Wood, they seem amused. 'Why, it sounds like the Coming Age of the Horse,' one generally well-informed man said.

"This is the Atomic Age, and its dynamic - sounding name symbolizes progress — but that does not make it any less the Age of Wood. The paper this book is printed upon is made from wood; the gum that binds its pages may come from wood. The frames of your eyeglasses, the fountain pen you write with (even under water), may be wood plastics. The house you live in is constructed mainly of wood; the insulation is wood. The furniture is obviously wooden, and so is probably 50 per cent of your telephone."

Part I of this book goes on to pose the problem, give its history, and show how the goals of plenty for all will be achieved.

Part II is a simple, graphic exposition of the technical aspects of the problem, presented in beautiful charts and pictures by the artist Henry Billings.

Part III goes into the technical problems and shows precisely where we are on each corner and by-path of the road to the Coming Age of Wood.

Simon & Schuster $3.50

LAND OF MILK AND HONEY

By W. L. White

This is the true story of young Vasili Kotov, who had the best the Soviet world could offer an average citizen. He nevertheless seized an almost miraculous opportunity to escape and take his chances with Western democracy. W. L. White has told his story with all the warmth and vividness of detail that have made *Journey for Margaret* and *They Were Expendable* such memorable example of documentary narrative.

A working class background and engineering aptitudes gave Kotov the best education the Soviets offered. Born in 1914, with no knowledge of pre-revolutionary Russia nor of the world outside the Soviet Union, he was untroubled by comparisons. It was not until, as an airplane pilot in the war, he saw first the Russian-occupied countries and later France, that he had any idea of what life could be like outside Russia. And two years of living in peacetime America gave him the final contrast between the two worlds in which he has lived.

W. L. White has told Kotov's story in terms of intimate details and homely comparisons. Here is a Moscow family upbringing, and a college romance with an idealistic girl who reappears later in a very different guise. Here is a record of how the war felt to a Russian soldier. Above all, here is a picture of how America looks when seen through Russian eyes. *Land of Milk and Honey* is a completely fresh account, in terms of ordinary living, of the unfolding of our way of life to a person who has never known its like before.

Harcourt Brace $3.00

s

y,

ndiana

ION

nks

o;

N

ies

CORP.

York

TION

ORP.

s

ANY

es

CORP.

els

CORP.